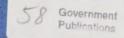


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2010



Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

Message from the Auditor General of Canada Main Points—Chapters 1 to 5



Office of the Auditor General of Canada



# 2010



# Report of the Auditor General of Canada

to the House of Commons

**SPRING** 

Message from the Auditor General of Canada Main Points—Chapters 1 to 5 Appendix



The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2010 Cat. No. FA1-2010/1-0E ISBN 978-1-100-15327-8 ISSN 0821-8110













To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith this Spring Report of 2010 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser

Sheila Fraser, FCA Auditor General of Canada



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Message from the Auditor General of Canada— Spring 2010



# Message from the Auditor General— Spring 2010



Sheila Fraser, FCA Auditor General of Canada

The chapters in this Report discuss issues that are important to the effective functioning of the government, the services it provides, and commitments it has made to Canadians. A brief overview of each chapter follows my comments below relating to electronic health records.

Accompanying this Report is Electronic Health Records in Canada—An Overview of Federal and Provincial Audit Reports. Over the past year, my office and six provincial audit offices carried out separate but concurrent audits of the development and implementation of electronic health records in our respective jurisdictions. Each audit office has reported the results of its audit to its own legislature. The Overview discusses some themes that all of the reports have in common. It does not reflect any progress that may have been made since the tabling of the individual reports over the past year.

Our own report was tabled in November 2009. We found that Canada Health Infoway Inc. had accomplished much in the eight years since its creation. Infoway had developed an approach to providing for compatible electronic health records nationwide, consulted widely with partners and stakeholders to obtain their input and support, and put in place appropriate management controls over spending.

Electronic health records are expected to reduce costs and improve the quality of care. We noted a number of critical challenges that will need to be managed to ensure that these benefits are realized. These challenges are reiterated in the Overview—for example, the need to increase the number of primary care doctors using computerized record systems that can share and communicate information; to upgrade completed projects that do not meet all the standards for national compatibility; to address the implications of differences in provincial and territorial laws regarding the collection, use, protection, and disclosure of personal health information; and to identify the total cost of completing the initiative.

The Overview, which I and my provincial counterparts have signed, concludes that governments at all levels have an opportunity to take stock and to re-establish priorities, objectives, costs, and timelines. The overall success of the initiative depends on this. Given the

significance of the investments made, the potential benefits, and Canadians' interest in health care, this is also an opportunity for the committees of each legislature to continue monitoring the audit findings and provide future oversight for this initiative.

### Aging Information Technology Systems

# Is the federal government managing risks related to the aging of its information technology systems?

The federal government relies heavily on information technology (IT) systems to deliver programs and services to Canadians. Although the systems are functioning, many consist of legacy applications supported by old infrastructure and are at risk of breaking down. Even applications that meet current business needs can be difficult and expensive to operate and may not be flexible enough to respond quickly to changes.

The five organizations we examined have identified aging IT as a significant risk—important enough, for the majority, to include in their corporate risk profiles. They state that if the risk is not addressed in a timely way, the systems may not be able to meet current and future business needs. In most of the organizations, we found that the management of these risks needs significant improvement. Two of the three systems we examined contain significant risks that, if left unaddressed, could reach unacceptable levels and disrupt the distribution of employment insurance benefits and the collection of personal income tax.

We found that although it is aware of the issue, the Chief Information Officer Branch (CIOB) of the Treasury Board of Canada Secretariat has not formally identified the aging of IT systems as an area of importance for the government. We believe it should prepare a report assessing the state of aging IT systems across the government and develop a plan and funding options to address it.

Renewal or replacement of aging IT must be planned and budgeted for over the long term, because it can take five years or longer and entail significant costs—a total of \$2 billion has been estimated as the funding shortfall for needed investments in three of the audited organizations alone. Without a government-wide strategy for sufficient and timely investment, the ability of departments and agencies to serve Canadians could be at risk.

# Modernizing Human Resource Management

# Have federal organizations made the changes required under the *Public Service Modernization Act?*

Introduced in 2003, the *Public Service Modernization Act* represents the most significant reform of human resource management in the federal government since the 1960s. The legislation was expected to provide for more flexible approaches to hiring and harmonious labour-management relations, among other things. The government viewed the legislation as an important tool to help ensure that the public service could be more responsive to the changing needs of Canadians and provide them with better services.

We found that most provisions of the legislation have been put in place, such as elements of labour-management consultations, more flexible staffing, and informal conflict-resolution mechanisms. However, human resource management is still in transition, and challenges remain to be addressed—for example, the Public Service Commission has reported that staffing a position in the 2008–09 fiscal year took longer than it did before the legislative changes.

While the central human resource agencies have reported to Parliament annually on their activities, as the legislation requires, reports of the President of the Treasury Board have been released late—by up to two years. Furthermore, the reports lack complete information on what has been achieved compared with what was expected of the legislation. This information is needed by Parliament in its oversight role; it is also needed to support the upcoming review of the legislation.

Although the legislation has been implemented, the government needs to continue to manage the challenges, monitor progress, and ensure that the expected results are realized.

# Rehabilitating the Parliament Buildings

Are projects guided by a process that protects both the heritage of the buildings and Parliament's ability to continue operating?

Public Works and Government Services Canada (PWGSC) has identified serious risks to key systems in the Parliament buildings, such as electrical and heating systems, that could affect the continued operations of Parliament in the coming years. The risks to the West Block are already critical, and risks to the Centre Block—the hub of Parliament's operations—are growing. Furthermore, the Senate and the House of Commons have indicated that their present and future needs cannot be met by the buildings in their present state.

We found that PWGSC has used generally accepted practices in managing rehabilitation projects once all parties involved support them, from its defining of user needs and development of a long-term plan, to its costing methods, assessment of the impact on the environment, and use of lessons learned.

However, we found that existing arrangements for decisions on the management of the buildings are inadequate to guide the rehabilitation of the Parliament buildings. Decision making and accountability are fragmented, and there is a lack of consensus on priorities.

Furthermore, the current custodianship arrangement hinders proper governance of the rehabilitation effort. PWGSC, as the custodian department, controls the rehabilitation projects and is responsible for seeking funding. However, while the parliamentary partners define their needs and make decisions on accommodation standards and security and communications requirements, they are not directly involved in the government approval process. Thus they cannot fully participate in the final stages of government approvals and decisions regarding the projects.

We believe that only limited progress can be made on the rehabilitation of the Parliament buildings unless the governance arrangements are addressed.

The ultimate purpose of these buildings is to support Parliament's unique operations. In our view, the Parliament buildings are a special purpose space and the control and responsibility for them need to rest with Parliament.

# Sustaining Development in the Northwest Territories

# Has the government put in place key measures to support sustainable and balanced development?

Despite current global economic conditions, the resource base of the Northwest Territories (NWT) suggests that long-term production of oil, gas, and minerals such as diamonds is likely to increase. Key conditions for sustainable and balanced development include settled land claims that clarify land and resource rights, an environmental regulatory system to protect the fragile environment, and community capacity to participate in economic development opportunities.

Overall, we found that while important progress has been made, key measures designed to prepare for sustainable and balanced development in the NWT have not yet been implemented adequately. Indian and Northern Affairs Canada (INAC) has made progress toward finalizing

the land claim agreements that are still outstanding. However, the negotiation of self-government agreements has been undermined by delays in promised funding for First Nations to participate in the process.

The environmental regulatory system is generally complete in regions with settled land claims—INAC has supported the co-management boards that are responsible for developing land use plans and reviewing and approving land and water permits—but not in areas where land claims are still under negotiation. In those areas, INAC has not put an adequate regulatory system in place to protect the environment, and rights and obligations related to land use are not clearly defined.

We also found that Human Resources and Skills Development Canada and INAC—the federal departments that provide skills training programs and support for economic development projects in the NWT—have not measured and reported to what extent the programs have fostered sustainable employment and local economic development in those communities.

During our audit, the federal government established the Canadian Northern Economic Development Agency and transferred to it the responsibility and funding for INAC's economic development programs in the NWT. It is important that the new agency develop a strategic approach to delivering these programs based on identified needs, and that it measure and report the results.

# Scientific Research—Agriculture and Agri-Food Canada

Has the Department managed its research activities in line with the strategic direction it has set?

Agriculture and Agri-Food Canada introduced a new Science and Innovation Strategy in May 2006. Among the Strategy's objectives were to promote excellence in research and increase collaboration with other research organizations. In 2009, the Department completed its new policy framework, Growing Forward, designed in part to encourage industry leadership and investment in agricultural science and innovation. The Department's new strategic direction represented significant change for its research activities.

Overall, we concluded that the Department has not managed its research activities sufficiently to achieve its strategic direction. For example, while it had implemented some aspects of the Strategy, it did not begin to formally draft a strategic action plan until October 2008. This contributed to uncertainty about its new strategic direction among other agricultural research organizations as well as the Department's

own scientists. At the end of our audit in September 2009, the Department had yet to determine the human resources, equipment and facilities, and financial resources needed to carry out the action plan.

The Department has taken a positive step toward ensuring excellence in science by using external peer review to select the research projects it funds. However, we found limited monitoring of research activities, little feedback to scientists on the results of their projects, and limited analysis of the entire project portfolio to ensure alignment with strategic direction. In addition, the lack of predictable funding has had an impact on research efforts.

We found that the management of collaborative arrangements—a key part of the Strategy—needs to be improved. On individual projects, the Department's Research Branch has a history of successful collaboration with other organizations. However, the more complex collaborative arrangements we examined were not well-managed by the Department. This caused a significant loss of goodwill among some important partners.

The Department has made significant changes in response to evolving policy directions. It has put in place some elements of its strategic direction, and it now needs to complete and implement other key aspects of its action plan to ensure the effective management of its research activities.

# Special Examinations of Crown Corporations—2009

Did Crown corporations maintain the financial management and control systems and management practices that legislation requires?

This chapter of my Report presents the Main Points of our special examination reports on 11 Crown corporations, which we issued to their respective boards of directors at different dates throughout 2009; the corporations have subsequently made the reports public on their websites. The Main Points do not reflect events that may have occurred after our reports were issued.

The Financial Administration Act requires each Crown corporation to maintain systems and practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively. Any major weakness in its systems and practices that could prevent it from having that assurance is considered a significant deficiency.

My office conducts periodic special examinations of Crown corporations to provide an objective opinion on whether there is

reasonable assurance that, during the period examined, their key systems and practices had no significant deficiencies.

We issued reports in 2009 to the following Crown corporations:

- Business Development Bank of Canada
- Canada Development Investment Corporation
- Canada Mortgage and Housing Corporation
- Canada Post Corporation
- Canada Science and Technology Museum Corporation
- Canadian Commercial Corporation
- Enterprise Cape Breton Corporation
- Export Development Canada
- Marine Atlantic Inc.
- National Gallery of Canada
- Standards Council of Canada

We identified one or more significant deficiencies in three of the corporations:

- Canada Post Corporation had a significant deficiency relating to a strategic risk due to a lack of funding for its postal transformation initiative.
- Canada Science and Technology Museum Corporation had a significant deficiency relating to its human resource management systems and practices.
- Marine Atlantic Inc. had two significant deficiencies: one relating to unresolved strategic challenges and another relating to systems and practices in operational planning and capital asset management.

We brought each of these cases to the attention of the responsible minister.

I hope that parliamentarians find the information in this report useful in their scrutiny of these important areas of government activity.



I
Main Points—Chapters 1 to 5



### Aging Information Technology Systems

### Chapter 1

### **Main Points**

#### What we examined

Aging information technology (IT) systems refers not only to a system's age in years but also to issues that affect its sustainability over the long term, such as the availability of software and hardware support and of people with the necessary knowledge and skills to service these systems. The term also relates to a system's ability to adequately support changing business needs or emerging technologies, such as 24/7 online availability.

The Treasury Board of Canada Secretariat, through its Chief Information Officer Branch (CIOB), is responsible for establishing the federal government's overall strategic direction for IT, in consultation with deputy heads of departments. It is also responsible for identifying areas that offer significant government-wide benefits and for leading initiatives to achieve government-wide solutions. According to the most recent figures available (for 2005), departments and agencies spend about \$5 billion a year on IT.

We examined whether five of the government entities with the largest IT expenditures—the Canada Revenue Agency, Public Works and Government Services Canada, Human Resources and Skills Development Canada, the Royal Canadian Mounted Police, and Citizenship and Immigration Canada—have adequately identified and managed the risks related to aging IT systems. The audit also examined whether the Treasury Board of Canada Secretariat, and specifically its Chief Information Officer Branch, has determined if aging IT systems is an area of importance to the government as a whole and to what extent it has provided direction or leadership in developing government-wide responses to address the related risks.

We also looked at three major systems that deliver essential services to Canadians—the Employment Insurance Program, the Personal Income Tax and Benefits Return administration system, and the Standard Payment System—to determine how the responsible entities have addressed the risks related to the aging of the IT systems that support these services. The Employment Insurance Program processed more than 3.1 million claims and paid out over \$16.3 billion to claimants in

the 2008–09 fiscal year. The Personal Income Tax and Benefits Return administration system processed more than 27 million income tax and benefit returns that provided \$166 billion of revenue and also distributed \$17 billion in payments for benefits and credits in 2008–09. The Standard Payment System (SPS) is the principal system the government uses for issuing payments, including Old Age Security, Canada Pension Plan, and Employment Insurance benefits. It issued more than 250 million payments in 2008. In about 60 percent of cases, these payments are the only income or the main source of income for the people who are receiving them.

Audit work for this chapter was substantially completed on 30 November 2009.

#### Why it's important

The federal government relies heavily on IT systems to deliver programs and services to Canadians. Even though these systems are functioning, many of them consist of legacy applications that are supported by old infrastructure and are at risk of breaking down. A breakdown would have wide and severe consequences—at worst, the government could no longer conduct its business and deliver services to Canadians. Even applications that meet current business needs can be difficult and expensive to operate and may not be flexible enough to respond quickly to changes.

The renewal and modernization of IT systems does not happen overnight. It must be planned and budgeted for over the long term. The cost to renew and modernize IT systems are significant and can take many years to fund, and implementation can take five years or longer. Without sufficient and timely investments to modernize or replace aging systems, the ability of departments and agencies to serve Canadians is at risk.

#### What we found

- Aging IT has been identified as a significant risk by the five organizations we examined, and the majority of them consider it sufficiently important to include it in their corporate risk profiles. They state that if these risks are not addressed in a timely manner, the systems may not have the capacity to meet current and future business needs.
- Although the Chief Information Officer Branch of the Treasury Board of Canada Secretariat is aware that the aging of IT systems is an issue, it has not formally identified it as an area of importance for the government. Nor has it assessed the issue from a government-wide perspective or worked with departments and agencies to develop government-wide solutions. Despite the significant funding likely to

be needed across government to renew aging systems—estimated at a total of \$2 billion in three of the five entities alone—the CIOB has not formulated strategic directions or a plan to address these issues on a government-wide level.

• Citizenship and Immigration Canada, Public Works and Government Services Canada, and Human Resources and Skills Development Canada have taken some steps to manage the risks related to their aging IT systems, but much work remains to be done. The Canada Revenue Agency and the Royal Canadian Mounted Police are farther along. They have both identified the significant risks associated with their aging systems and completed a multi-year investment plan that defines and prioritizes ongoing and future work. Based on their preliminary estimates, they have determined that the costs involved are significant and that presently they lack sufficient resources to complete critical investments.

The departments and agencies have responded. The departments and agencies agree with all of our recommendations. Their detailed responses follow the recommendations throughout the chapter, as applicable.



# Modernizing Human Resource Management

#### Chapter 2 **Main Points**

#### What we examined

The Public Service Modernization Act (PSMA), introduced in 2003, represents the most significant reform of human resource management since the 1960s. A complex undertaking, the legislation brings into play a multitude of stakeholders, from central human resource agencies to deputy heads, line managers, and human resource professionals. The Act, which amends four pieces of legislation, is designed to transform the way the federal government hires, manages, and supports its employees. It calls for more flexible approaches to hiring, clearer roles and accountability for human resource management, harmonious labour-management relations, and better integration of training and development for public service employees.

In 2005, we reported that the government had established a strong foundation for managing the implementation of the PSMA. In this audit, we examined whether the central human resource agencies have implemented the new legislative requirements flowing from the PSMA, met the legislative reporting requirements, and reported on the progress of the Act's implementation. We examined whether these agencies as well as deputy heads have exercised the new or revised roles and responsibilities in accordance with the legislation. We also looked at preparations for the upcoming legislative review called for in the Act.

We did not audit the impacts of the legislation on the human resource management regime. We also did not examine changes being made as part of other initiatives that affect human resource management.

Audit work for this chapter was substantially completed in September 2009.

### Why it's important

With over 200,000 employees in departments and agencies providing advice to government and services to Canadians, the human resource investment in the public service represents a significant portion of the government's annual expenditures. The legislation was implemented to respond to long-standing concerns that the human resource management regime was cumbersome, complex, inflexible, and

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outdated and that roles and responsibilities were fragmented. Sound management of human resources is critical to an effective public service and better service to Canadians.

#### What we found

- The key requirements of the legislation have been implemented. Changes have been made to allow for more flexibility in how the public service is staffed and how recourse is managed. Mechanisms have been put in place to foster harmonious labour relations and to resolve disputes more informally. Primary responsibility for human resource management has been transferred to deputy heads, who now exercise those direct responsibilities as well as those delegated to them for human resource management and staffing.
- Organizational changes have been made as part of the implementation of the legislation. As a result, new organizations were created and others saw their mandate and role enhanced. In an attempt to resolve remaining concerns about governance, in 2009 the government created the Office of the Chief Human Resources Officer within the Treasury Board of Canada Secretariat.
- There have been difficulties encountered in implementing some aspects of the legislation, including the application of some of the new tools and mechanisms.
- The various entities required to report to Parliament on human resource management have generally met the requirements. Reports provide information about the implementation process and some activities. However, despite a commitment in 2005 by the Treasury Board of Canada Secretariat and the former Public Service Human Resources Management Agency of Canada to report on interim achievements, reports provide only some of that information.
- The legislation calls for a legislative review of the *Public Service Employment Act* and the *Public Service Labour Relations Act*. The minister responsible for the review has been designated, and a review team has been put in place. Preparation for the review is progressing. However, insufficient information on whether the results expected from the legislation have been achieved could limit the review team's ability to provide meaningful information to support the review and to inform Parliament.

The entities have responded. The Treasury Board of Canada Secretariat and the PSMA Legislative Review Team agree with our recommendations. Their detailed responses follow each recommendation throughout the chapter.



# Rehabilitating the Parliament Buildings

### Chapter 3

### **Main Points**

What we examined

For over two decades, it has been recognized that the main buildings on Parliament Hill—the Centre, West, and East blocks, the Library of Parliament, the Confederation Building, and the Justice Building—are in need of major repairs and upgrading. Their rehabilitation has been a long-standing objective of their custodian, Public Works and Government Services Canada (PWGSC), and of the Senate, the House of Commons, and the Library of Parliament, the parliamentary partners who occupy the buildings. In 2007 the government approved an updated Long-Term Vision and Plan, notably for carrying out the necessary work and providing additional facilities within a clearly defined secure area north of Wellington Street to meet Parliament's current and future requirements.

The Long-Term Vision and Plan is to be carried out through a series of five-year programs, each of which includes primary projects to restore the key heritage buildings, urgent building interventions to ensure the ongoing viability of buildings and to address health and safety issues, and the planning activities to develop the next five-year program.

While PWGSC is responsible for the day-to-day management of the buildings and for planning and carrying out projects for their rehabilitation and long-term care, and the parliamentary partners control their premises, other entities also have responsibilities for the Parliament buildings. These include Parks Canada Agency, the National Capital Commission, and the RCMP.

We examined how PWGSC is managing the rehabilitation of the Parliament buildings. We also looked at what arrangements are in place between PWGSC and the parties involved to govern the implementation of the Long-Term Vision and Plan.

Audit work for this chapter was substantially completed on 30 October 2009.

Why it's important

The buildings on Parliament Hill are the focal point of Canadian political life. They were intended from the outset to convey the symbolic and ceremonial aspects of Parliament. Over time, the

buildings and the site have become a visual symbol of Canada's parliamentary democracy. The historical importance of some of the parliamentary buildings (and grounds) was formally recognized in 1976, when they were designated by the Minister of the Environment as a National Historic Site, and in 1987, when the Minister designated them as "classified heritage buildings," the highest-level designation.

PWGSC faces the critical challenge of modernizing the buildings to meet the needs of the occupants and providing new facilities that respect the heritage value of Parliament Hill while meeting the requirements of Parliament.

#### What we found

- Through its assessment of building conditions, PWGSC has identified serious risks that could affect the continued operations of Parliament. Furthermore, the heritage character of some of the buildings is threatened and the health and safety of occupants could be at risk. The Senate and the House of Commons have indicated that their present and future needs cannot be met by the buildings in their present state.
- The governance framework in place is inadequate to guide the
  overall rehabilitation of the Parliament buildings. In particular,
  decision making and accountability are fragmented, and the
  framework does not allow for reaching consensus on priorities and
  committing resources to implement long-term plans. These
  weaknesses, which cannot be attributed to any organization alone,
  result in delays in making decisions and implementing projects, and
  contribute to increasing project costs and risks.
- The rehabilitation projects on Parliament Hill are unique and complex. Once rehabilitation projects are supported by all parties, PWGSC has in place generally sound project management practices. These practices take into account the heritage character of the buildings, their age and condition, the needs of their users, and the protection of the environment. The Department has also developed costing estimates methodology that takes into account the risks that rehabilitation projects are facing and it updates this information regularly. Despite the project management practices in place, setting priorities and satisfying client requirements will remain difficult until the governance framework is addressed.

The Department has responded. The Department agrees with the recommendation. Its detailed response follows the recommendation in the chapter.



# Sustaining Development in the Northwest Territories

### Chapter 4

### **Main Points**

#### What we examined

The Government of Canada has highlighted the North as a fundamental part of our national identity and a vital part of Canada's future. For many years, and in its 2009 Northern Strategy, the government committed to protecting environmental heritage, promoting economic and social development, and improving governance so that northerners have greater control over their destinies.

In virtually every part of the Northwest Territories (NWT), land claims and self-government agreements have either been settled or are being negotiated. When a claim is settled, co-management boards are established that include federal and territorial representatives as well as members of the Aboriginal community. Responsibilities of co-management boards include developing land use plans and issuing permits for land and water use, often with conditions attached to protect the environment. Skills training and economic development programs are intended, in part, to help ensure that Aboriginal peoples in the Northwest Territories benefit from development and employment opportunities. Settled land claims, an environmental regulatory system, and community capacity to participate in economic development opportunities are key measures that support sustainable and balanced development in the NWT.

We examined how Indian and Northern Affairs Canada (INAC), Environment Canada, and Human Resources and Skills Development Canada (HRSDC) have supported these key measures in the NWT. We did not audit the activities of co-management boards.

Audit work for this chapter was substantially completed on 20 November 2009.

### Why it's important

Natural deposits of diamonds, metals, minerals, and oil and gas in the NWT provide extensive opportunities for resource development. Economic benefits of development include the potential for direct employment, economic opportunities, improved social conditions, and increased revenue for government.

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At the same time, the natural environment of the NWT is vast, fragile, and unique. Aboriginal communities depend on the wildlife, water, and habitat. The impacts of climate change and air, land, and water contaminants are now understood to have a disproportionate effect on northern ecosystems.

The federal government has specific obligations relating to effective governance, environmental protection, and capacity building to provide for sustainable and balanced development in the Northwest Territories. Failure to meet these obligations could mean missed economic opportunities, environmental degradation, and increased social problems in NWT communities.

#### What we found

- The Government of Canada (represented by INAC), the Government of the NWT, and Aboriginal groups have finalized land claim agreements in the Inuvialuit, Gwich'in, Sahtu, and Tlicho regions of the NWT. INAC has made progress toward finalizing the four comprehensive land claim settlements and ten self-government agreements still being negotiated in the NWT. However, significant delays in the Department's provision of agreed-upon funding to some First Nations have hindered their participation in the self-government negotiations process.
- An environmental regulatory system is mostly in place in regions with settled land claims—co-management boards have been established, development decisions are being made, and land use plans are being developed. INAC has improved its support to co-management boards since 2005 and has supported the development of land use plans in these regions. However, key components of the environmental regulatory system are missing in regions where land claims have not been settled and where regional co-management boards have thus not been established. In many cases, there is no clear requirement for land use plans or a mechanism for community involvement in decision making, and consequently decisions on development applications take longer than in regions with settled land claims.
- INAC and Environment Canada have not met their responsibilities
  to monitor the cumulative impact of development and of various
  pollutants on the fragile environment in the NWT, whether or not a
  settled land claim is in place. Therefore, co-management boards are
  missing environmental information that they could use in making
  decisions on development proposals.

- HRSDC's programs support skills training for Aboriginal peoples in the NWT and monitor short-term objectives and targets. However, the Department has yet to assess the longer-term impact of its skills training programs regarding sustainable employment of Aboriginal peoples.
- INAC's programs to support economic development in the NWT by funding community projects and activities lack a strategic focus and they do not have specific objectives against which progress can be measured and results tracked. The government recently transferred economic development programs in the NWT from INAC to the new Canadian Northern Economic Development Agency.

The departments and the Canadian Northern Economic Development Agency have responded. The departments and the Agency agree with our recommendations. Their detailed responses follow each recommendation throughout the chapter.

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# Scientific Research— Agriculture and Agri-Food Canada

### Chapter 5

### **Main Points**

#### What we examined

Agriculture and Agri-Food Canada has a mandate to provide information, research and technology, and policies and programs to achieve an environmentally sustainable, innovative, and competitive agriculture sector. The Department's work includes supporting productivity and trade, stabilizing farm incomes, and conducting research.

The Research Branch conducts and encourages innovative research to help Canadian producers benefit from new agricultural developments. It employs around 2,300 people, including almost 700 scientific staff and research professionals and 1,000 technical staff, in 19 research centres across the country. This represents over one third of the Department's human resources.

In 2006, the Department introduced its Science and Innovation Strategy, which placed greater emphasis on excellence in the conduct and management of science. Another key goal of the Strategy was to increase collaborative arrangements with other research organizations. The federal government's science strategy was launched in 2007 and the Department's policy framework, Growing Forward, was completed in 2009, increasing the emphasis on innovation as a strategic objective. These policy directions represented significant change for the Research Branch and its stakeholders.

We examined how the Department manages its research activities to achieve its strategic direction and priorities, including how it manages its research projects, its human resources, and its capital assets.

Audit work for this chapter was substantially completed on 22 September 2009.

### Why it's important

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The Canadian agriculture and agri-food industry is vital to Canada's economic success; it accounts for about eight percent of the country's gross domestic product and employs one in eight Canadians. However, the agriculture sector faces several challenges, including international competition, pressure to reduce operational costs through advanced production methods and technologies, falling prices for some

commodities, and consumers' heightened concerns about heath, food safety, and the environment.

Agricultural and agri-food research has enabled farmers to increase yields, adapt crops to Canadian conditions, introduce new crops, and improve animal production. The Department's research is aimed at developing new knowledge and new discoveries in order to maintain Canada's ability to produce food, develop new products, and compete internationally, while improving the environmental sustainability of the sector.

#### What we found

- Agriculture and Agri-Food Canada has put in place only some of the elements needed to achieve its new strategic direction, in part due to the evolving policy environment. For example, while a strategic action plan for the Science and Innovation Strategy has been approved, it does not identify the human resources, equipment and facilities, and financial resources required; nor was a communication strategy finalized until the end of our audit. As a result, other organizations in the agriculture sector as well as the Department's own scientists have been uncertain about its strategic direction.
- The Research Branch has a history of successful collaboration on individual research projects with scientists in other organizations. The three collaborations we examined—which were more complex, long-term, and involved multiple partners and multiple projects—were not well-managed by the Department. This caused a significant loss of goodwill among a number of important partners.
- To select the research projects it funds, the Research Branch has implemented peer and management review processes in order to ensure the best investment of public funds. However, there is little monitoring of research activities and little feedback to scientists on their work. There is little analysis of the research portfolio as a whole.
- While many activities in the Research Branch human resource plan have been implemented, planning for the longer term has not been a focus due, in part, to the evolving policy direction. The Research Branch has not identified how it will staff positions over the longer term or determined those to be staffed in the future and those to be eliminated. However, as part of implementing the strategic action plan, a revised multi-year human resource plan was being developed at the end of our audit.

Although it has undertaken some components of a plan for the renewal and replacement of its capital assets, the Department has not yet identified which locations are critical to maintain and which are no longer needed to achieve its research strategic direction.
When last assessed in 2005, the condition of the majority of the buildings, based on square metres, was rated as poor (26 percent) or average (45 percent) rather than good or excellent. Also, about 71 percent of laboratory and agricultural equipment had exceeded its service life. However, as part of implementing the strategic action plan, the Research Branch is gathering more recent information from research centres on the condition and use of its assets.

The Department has responded. The Department agrees with all of our recommendations. Its detailed responses follow the recommendations throughout the chapter.

Appendix



## Appendix Report on the audit of the President of the Treasury Board's report, Tabling of Crown Corporations' Reports in Parliament

#### Tabling in Parliament for parent Crown corporations: Annual reports and summaries of corporate plans and budgets

Section 152 of the Financial Administration Act (the Act) requires the President of the Treasury Board to lay before each House of Parliament, no later than 31 December of each year, a report on the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. The Act also requires the Auditor General of Canada to audit the accuracy of the report on the timing of tabling and to present the results in her annual report to the House of Commons.

The President of the Treasury Board's report on the timing of tabling is included in the 2009 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada, which was tabled on 7 December 2009.

At the time that our November 2009 report was being finalized, we were unable to include the results of the above-noted audit because the President of the Treasury Board's report had not yet been finalized. Our Auditor's report was subsequently appended to the President's report and is reproduced in this report to Parliament.

#### **AUDITOR'S REPORT**

#### To the House of Commons

As required by subsection 152(2) of the Financial Administration Act, I have audited, for the year ended 31 July 2009, the information contained in the report "Tabling of Crown Corporations' Reports in Parliament—Crown Corporations and Other Corporate Interests of Canada. The information contained in the report is the responsibility of the President of the Treasury Board. My responsibility is to express an opinion on the information contained in the report based on my audit.

I conducted my audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the information contained in the report is free of significant misstatement. My audit included examining, on a test basis, evidence supporting the dates and other disclosures provided in the report.

It my opinion, the information contained in the report "Tabling of Crown Corporations' Reports in Parliament" is accurate, in all significant respects, with the section "Deadlines for tabling in Parliament and results achieved" contained within the report.

Sylvain Ricard, CA

Assistant Auditor General

Syla Mical

for the Auditor General of Canada

Ottawa, Canada 6 November 2009



# Report of the Auditor General of Canada to the House of Commons—Spring 2010

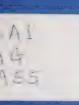
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# 2010



Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

Chapter 1 Aging Information Technology Systems



Office of the Auditor General of Canada



# 2010



Report of the Auditor General of Canada

to the House of Commons

SPRING

Chapter 1
Aging Information Technology Systems





Office of the Auditor General of Canada

The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

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Ce document est également publié en français.

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# Chapter

Aging Information Technology Systems



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List of recommendations





### Aging Information Technology Systems

#### **Main Points**

What we examined

Aging information technology (IT) systems refers not only to a system's age in years but also to issues that affect its sustainability over the long term, such as the availability of software and hardware support and of people with the necessary knowledge and skills to service these systems. The term also relates to a system's ability to adequately support changing business needs or emerging technologies, such as 24/7 online availability.

The Treasury Board of Canada Secretariat, through its Chief Information Officer Branch (CIOB), is responsible for establishing the federal government's overall strategic direction for IT, in consultation with deputy heads of departments. It is also responsible for identifying areas that offer significant government-wide benefits and for leading initiatives to achieve government-wide solutions. According to the most recent figures available (for 2005), departments and agencies spend about \$5 billion a year on IT.

We examined whether five of the government entities with the largest IT expenditures—the Canada Revenue Agency, Public Works and Government Services Canada, Human Resources and Skills Development Canada, the Royal Canadian Mounted Police, and Citizenship and Immigration Canada—have adequately identified and managed the risks related to aging IT systems. The audit also examined whether the Treasury Board of Canada Secretariat, and specifically its Chief Information Officer Branch, has determined if aging IT systems is an area of importance to the government as a whole and to what extent it has provided direction or leadership in developing government-wide responses to address the related risks.

We also looked at three major systems that deliver essential services to Canadians—the Employment Insurance Program, the Personal Income Tax and Benefits Return administration system, and the Standard Payment System—to determine how the responsible entities have addressed the risks related to the aging of the IT systems that support these services. The Employment Insurance Program processed more than 3.1 million claims and paid out over \$16.3 billion to claimants in

the 2008–09 fiscal year. The Personal Income Tax and Benefits Return administration system processed more than 27 million income tax and benefit returns that provided \$166 billion of revenue and also distributed \$17 billion in payments for benefits and credits in 2008–09. The Standard Payment System (SPS) is the principal system the government uses for issuing payments, including Old Age Security, Canada Pension Plan, and Employment Insurance benefits. It issued more than 250 million payments in 2008. In about 60 percent of cases, these payments are the only income or the main source of income for the people who are receiving them.

Audit work for this chapter was substantially completed on 30 November 2009.

#### Why it's important

The federal government relies heavily on IT systems to deliver programs and services to Canadians. Even though these systems are functioning, many of them consist of legacy applications that are supported by old infrastructure and are at risk of breaking down. A breakdown would have wide and severe consequences—at worst, the government could no longer conduct its business and deliver services to Canadians. Even applications that meet current business needs can be difficult and expensive to operate and may not be flexible enough to respond quickly to changes.

The renewal and modernization of IT systems does not happen overnight. It must be planned and budgeted for over the long term. The cost to renew and modernize IT systems are significant and can take many years to fund, and implementation can take five years or longer. Without sufficient and timely investments to modernize or replace aging systems, the ability of departments and agencies to serve Canadians is at risk.

#### What we found

- Aging IT has been identified as a significant risk by the five
  organizations we examined, and the majority of them consider
  it sufficiently important to include it in their corporate risk profiles.
  They state that if these risks are not addressed in a timely manner,
  the systems may not have the capacity to meet current and future
  business needs.
- Although the Chief Information Officer Branch of the Treasury Board of Canada Secretariat is aware that the aging of IT systems is an issue, it has not formally identified it as an area of importance for the government. Nor has it assessed the issue from a government-wide perspective or worked with departments and agencies to develop government-wide solutions. Despite the significant funding likely to

be needed across government to renew aging systems—estimated at a total of \$2 billion in three of the five entities alone—the CIOB has not formulated strategic directions or a plan to address these issues on a government-wide level.

· Citizenship and Immigration Canada, Public Works and Government Services Canada, and Human Resources and Skills Development Canada have taken some steps to manage the risks related to their aging IT systems, but much work remains to be done. The Canada Revenue Agency and the Royal Canadian Mounted Police are farther along. They have both identified the significant risks associated with their aging systems and completed a multi-year investment plan that defines and prioritizes ongoing and future work. Based on their preliminary estimates, they have determined that the costs involved are significant and that presently they lack sufficient resources to complete critical investments.

The departments and agencies have responded. The departments and agencies agree with all of our recommendations. Their detailed responses follow the recommendations throughout the chapter, as applicable.

#### Introduction

1.1 Canadians expect the government to provide them with many services, such as processing personal income tax returns, issuing pension and benefit payments, and safeguarding personal information. Information technology is now a vital part of service delivery for the government. Government business is supported by a vast array of information technology (IT) systems, some of which have been in use for several decades. However, the term "aging IT systems" refers to more than just how old a system is in years. Many systems that are 10 years old or older were designed to be continuously upgraded. These systems are functioning and are likely to continue to do so for some time.

#### Risks relating to information technology systems

- For the purposes of this audit, "aging IT systems" refers to applications and infrastructure that may be meeting current needs but are becoming increasingly expensive to operate and may pose certain risks. These risks may affect security or restrict the way the government conducts its business because systems cannot be easily updated to respond to changing business needs flowing from new laws, regulations, or industry standards. The most damaging risk is that an aging critical system could break down and prevent the government from delivering key services to the public—such as issuing income tax refunds and employment insurance and pension cheques. While these risks could apply to any IT system, they are more likely to affect older systems. Exhibit 1.1 describes some of the major factors that drive departments to modernize their aging systems.
- In 1999, the government identified as a significant issue the deterioration or obsolescence of hardware and software that cannot be, or has not been, upgraded to meet its needs or deliver its services. In 2005, a Treasury Board of Canada Secretariat (the Secretariat) study noted that the government under-invests in up-to-date hardware and software.
- Canada is not alone in this situation. A 2008 survey of chief information officers in state governments in the United States noted that modernizing aging IT systems and infrastructure presented a significant financial, technical, and program management challenge in that country. It also noted that without spending to modernize or replace existing systems, state governments risked losing their ability to operate as modern organizations and serve their citizens.

Exhibit 1.1 Overview of major factors driving the modernization of aging systems

Factor	Description
Skills shortage	Fewer staff and contractors have the skills and knowledge to use older programming languages and source code structures.
Vendor support	Vendors may no longer exist or no longer support older products.
Regulatory compliance	Outdated systems may be hard to update to comply with changing laws, regulations, and industry standards.
Maintenance costs	Costs go up because aging systems are very complex and difficult to maintain, there are few service providers, and parts are scarce and often very costly.
Access to data	Information becomes increasingly cumbersome to extract and analyze as data structures age.
Meeting client expectations	Older systems cannot be modified to support modern technologies and meet expectations such as 24/7 availability and workflow.
Security	Legacy systems cannot always be modified to conform to changing security requirements (for example, password complexity).
Green IT initiatives	Older IT systems are generally not energy efficient and are hard to modify to reduce their environmental impact.
Disaster recovery	The older the system, the harder it is to recover data after a disaster.

Legacy systems—Old technology, computer systems or application programs that continue to be used, even though newer technology or more efficient methods of performing a task are now available.

#### Focus of the audit

- This audit looked at the extent to which five selected organizations—Citizenship and Immigration Canada, the Canada Revenue Agency, Human Resources and Skills Development Canada, Public Works and Government Services Canada, and the Royal Canadian Mounted Police—have adequately identified and managed the risks associated with the aging of IT systems. The audit also focused on three critical aging systems to determine whether the organizations using them have identified and managed those risks. Finally, the audit examined whether the Secretariat, and specifically its Chief Information Officer Branch, has determined if aging IT is an area of importance to the government as a whole, and the extent to which it has provided direction or leadership in developing government-wide responses.
- As part of our audit, we surveyed 40 chief information officers of departments and agencies in the federal government that accounted for more than 95 percent of spending on IT. The purpose of the survey

was to assess the condition of the government's aging IT systems and infrastructure, and obtain an overall and government-wide picture of the risks those systems present—as well as the magnitude of the risks. Specifically, we assessed the risks that aging critical systems pose to delivering government services. The survey response rate was 100 percent. The results of the survey support our detailed audit observations presented later in this chapter.

More details on the audit objectives, scope, approach and criteria are in About the Audit at the end of this chapter.

#### Observations and Recommendations

#### Risk identification within organizations

- 1.8 Risk identification is the first step of any risk assessment. An information technology (IT) risk assessment involves making a clear link between the identified risks and their potential impact on the business and operations of the department or agency. The likelihood that these risks will occur must also be established. In order to do so, it is important that senior management be provided with an assessment of how sustainable critical IT systems are. This is often referred to as a "health check" in the IT industry. Exhibit 1.2 provides examples of criteria that can be used to help management identify problems that could affect their operations.
- The Treasury Board Directive on Management of Information Technology requires departments to prepare an IT plan each year that identifies IT risks, reflects departmental priorities, and outlines planned investments in IT for at least the next five years.
- 1.10 As part of the plan, we expected that the entities we examined would have identified risks related to their aging IT systems, using factors similar to those listed in Exhibit 1.2.
- 1.11 We examined five of the largest government organizations based on IT spending to determine whether they have adequately identified the risks associated with their aging IT systems. The Canada Revenue Agency (CRA), Public Works and Government Services Canada (PWGSC), and Human Resources and Skills Development Canada (HRSDC) are very large, while the Royal Canadian Mounted Police (RCMP) and Citizenship and Immigration Canada (CIC) are somewhat smaller but also rely heavily on IT.
- 1.12 We also examined three systems to determine the extent to which the organizations using them have identified the risks associated

with aging IT. These systems are the following: the Personal Income Tax and Benefits Return administration system at CRA, the Employment Insurance Program at HRSDC, and the Standard Payment System at PWGSC.

#### Exhibit 1.2 Examples of factors that can help identify information technology system sustainability issues

#### **External factors**

- · regulatory/legislative changes
- changes to industry standards (for example, Canadian Payments Association)
- control environment changes (for example, Treasury Board policies)
- · contractual obligations (for example, software licensing)

#### Age factors

- systems operating on hardware or software that are no longer supported
- · incompatibility between hardware and software components
- · software and hardware no longer supported by the department and announced with a long lead time

#### Service-level factors

- · poor performance
- · reduced availability
- · unreliable service
- · reduced capacity
- · higher costs to operate

Source: Adapted from Great West Life IT Infrastructure Health Assessment Process

#### Organizations have identified significant risks related to aging systems

- 1.13 Exhibit 1.3 summarizes our examination criteria, including risk identification, and results for each entity examined.
- 1.14 We found that the five organizations we examined have all identified risks related to the aging of their IT systems that pose a significant risk to their operations. They reported these risks as significant in their respective departmental or agency IT plans and strategies. As a result, senior management of each entity has been made aware of them. CIC, CRA, HRSDC, and PWGSC assessed certain risks relating to aging as significant enough to be elevated to corporate level risks. The RCMP did not include aging IT as a corporate risk.

Exhibit 1.3 Organizations assessed against key criteria

	Criteria					
Organizations	Identification of aging IT risks	Management of aging IT risks	Continuous monitoring of aging IT risks			
Citizenship and Immigration Canada	0	0				
Canada Revenue Agency	•		•			
Human Resources and Skills Development Canada	•	•	5			
Public Works and Government Services Canada	•	0				
Royal Canadian Mounted Police	•	•	•			

- Most systems and practices in place. Minor improvements could still be made.
- Many systems and practices in place. Improvements still required.
- Some systems and practices in place. Significant improvements required.
- 1.15 We found that the methodology all the selected organizations used or intended to use to identify risks was generally consistent with the Treasury Board Risk Management Policy.
- 1.16 Canada Revenue Agency. The Agency 2009 Corporate Risk Inventory identified 14 key risks. Two of those risks relate to aging IT. The first risk is linked to 141 national applications that are difficult to sustain because the database platform or the programming language is being phased out and will no longer be used for new applications. The second risk involves the aging of one of the Agency's data centres, which houses its key systems. This data centre will not be able to support the Agency's long-term service needs because it is located in a 40-year-old complex that was not built to accommodate a data centre. Its age, location, and other factors pose a significant risk.
- 1.17 Personal Income Tax and Benefits Return administration system. The CRA Personal Income Tax and Benefits Return administration system provides Canada, the provinces, and the territories with their principal source of revenue. The system also determines eligibility for individual Canadians who receive benefit payments and tax credits each year. The current system was implemented in the 1970s. In the 2008–09 fiscal year, CRA processed more than 27 million personal income tax and benefit returns,

of which 56 percent were filed electronically. In the same year, the Personal Income Tax and Benefits Return administration system provided \$166 billion in revenue and distributed 91 million ongoing payments for benefits and credits, totalling over \$17 billion.

- Since 2007, CRA has identified significant risks relating to the sustainability of applications and hardware, and the agility and adaptability of the many systems associated with the Personal Income Tax and Benefits Return administration system. CRA has measured the likelihood and impact of those risks, basing them on qualitative (subjective) and quantitative (objective) indicators, and management experience, using its Integrated Risk Management Framework. As a result, CRA has identified and included in its Strategic Investment Plan the modernization of the Personal Income Tax and Benefits Return administration system as one of the top three critical investments it needs to make.
- 1.19 CRA's corporate risk profile refers to a lack of sustainability the ability to keep applications (software) and infrastructure (hardware) operating and meeting operational demands—as a significant risk for aging IT systems. Although it does not specifically mention sustainability issues in connection with the Personal Income Tax and Benefits Return administration system, the documentation from the IT Branch links this risk directly to this system.
- 1.20 Public Works and Government Services Canada. The PWGSC 2008 corporate risk profile identified 12 key risks that could affect the achievement of the Department's objectives. Several branches within PWGSC identified issues associated with outdated systems that have adversely affected their programs. Examples included lower productivity, inability to support business requirements, and increased time and costs to search for information. The profile identified "ability of IM [information management]/IT infrastructure to meet needs" as the fourth most severe risk, based on the likelihood that this risk would disrupt the Department's operations and the impact it would have.
- 1.21 Also, PWGSC stated in its 2008 corporate risk profile that some outdated IT systems such as the Pay and Pension systems were close to imminent collapse, and compensation specialists were leaving as a result. The Department has initiated new projects to modernize both the Pay and Pension systems. We did not audit these systems.
- Standard Payment System. PWGSC operates the Receiver General Standard Payment System (SPS). The SPS was initially put

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into production in 1995 to replace 37 separate cheque issuing systems. It processes all Receiver General payments and issues more than 250 million payments each year. Some 60 percent of the total payments issued represent the sole or principal source of income for recipients. The most critical programs include Old Age Security, Canada Pension Plan, and Employment Insurance.

1.23 The SPS is currently meeting its operating service standards and business requirements even with a 30 percent increase in the volume of payments it has processed over the last 10 years. Over the years, the system has been working well and meeting clients' needs. Although the Department does monitor the system's operating performance, it has not conducted a formal sustainability analysis to determine when the SPS will reach the end of its useful life. This analysis would assess the system's ability to meet future capacity requirements.

#### 1.24 Human Resources and Skills Development Canada.

The HRSDC 2009 corporate risk profile identified six key risks. Due to growing demand for departmental services because of the current economic downturn, and existing technologies that are reaching the end of their useful life, the Department recognizes that there is a high risk that its IT infrastructure will not be able to support the delivery of its core programs, such as Employment Insurance (EI). HRSDC also identified the lack of sustainable funding for renewing IT infrastructure as a significant corporate risk.

1.25 Much of the current infrastructure is no longer supported by the manufacturers. This has led to costly maintenance contracts. For example, the heating ventilation and air conditioning system in the Montreal data centre is over 16 years old and the vendors no longer exist or make parts. As a result, the Department's Innovation, Information and Technology Branch (IITB) has spent \$152,000 for repairs and maintenance contracts to maintain cooling capacity in the past year. Also, the lack of funding for replacement of existing equipment has been identified as one of the major reasons behind the increase in the risk of major service outages.

#### 1.26 Employment Insurance program (EI program).

The EI program is a highly decentralized series of systems and applications, some of which date as far back as the 1980s. More than 24 applications are used to process an EI claim from initiation to payment. Of those, 12 are considered to be critical. Statistics show that in the 2008–09 fiscal year, more than 3.1 million EI claims were processed, 24 million payment transactions were made, and \$16.3 billion was paid to claimants.

- 1.27 For the past three years, IITB has identified aging IT risks for hardware and applications that support the EI program and are central to delivering benefits to Canadians. IITB has measured the likelihood and impact of those risks using HRSDC's Integrated Risk Management Framework. These risks were significant enough to be incorporated into the Department's corporate risk profile.
- We found that indicators for evaluating the likelihood and potential impact or consequences of risks were largely qualitative in nature and that few quantitative indicators were used. Good quantitative information lends weight or authority to the potential risk impacts and is also a useful tool for prioritizing risks as well as projects. For example, the Infrastructure Renewal Program and the Application Modernization Project, both initiated to address the aging IT risks, have been delayed. These projects have received only partial funding since they need a more thorough analysis. This analysis would include such aspects as the implications and risks of not proceeding, as well as business cases.
- 1.29 Citizenship and Immigration Canada. The 2008 CIC corporate risk profile describes and prioritizes 13 key risk areas. The risk area titled "Maintenance of IM/IT Systems and Infrastructure" applies directly to aging IT systems. CIC has also determined that the obsolescence, redundancy, and complexity of its legacy systems and infrastructure are a security and business risk.
- For example, the Field Operations Support System is a 29-year-old system critical to the National Immigration Program. It is considered high risk because the programming language is no longer being taught, and staff familiar with it are retiring. It is also very difficult, if not impossible, to integrate this application with newer systems.
- 1.31 CIC has an Integrated Risk Management Framework that dates back to 2002. A review of this policy in 2008 by internal audit led to recommendations for improvements to governance, impact statements, and a better Department-wide integration of risks. As a result, CIC has drafted a new Integrated Risk Management Framework. At the time of our audit, the revised Framework was still in draft form.
- Royal Canadian Mounted Police. The RCMP recently completed a corporate risk profile that identifies 12 key risks. Although aging IT systems is not included as a risk in the corporate risk profile, it is considered significant enough to be included in the most recent IT Investment Plan. For example, one of those aging IT risks involves

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radio systems that use older technology unable to support current security and privacy requirements. According to the RCMP, this increases the risk to police and public safety and could lead to injury or death.

1.33 Chief Information Officer (CIO) Survey. In our survey of CIOs across government departments, we asked the following question: "Do aging IT systems pose a major risk to your agency or department?" The CIOs in seven of the ten departments and agencies with the most IT spending that we surveyed—including four of the five entities we examined—identified aging IT as a major risk.

## Risk management within organizations

- 1.34 The Treasury Board Policy on Investment Planning requires that departments use a portfolio management approach when determining the appropriate balance of investments between those needed to sustain ongoing operations and those needed to improve the efficiency and effectiveness of their programs. This approach ensures that they focus on current and planned IT investments that best contribute to meeting business objectives, with an acceptable degree of risk and at a reasonable cost. This policy is currently being phased in across the government.
- **1.35** The systems and practices that support portfolio management include the following:
  - a multi-year strategic investment plan;
  - information about the existing portfolio of IT assets, including sustainability and risks;
  - · clearly defined portfolio categories and objectives; and
  - evaluation criteria for choosing investments.

In the case of IT, a portfolio management approach entails looking at all IT assets—aging and otherwise—before setting priorities for modernizing them. This approach provides a basis for prioritizing projects and achieving a balance between investing in a new system or systems, and investing to maintain the health of existing systems.

1.36 We examined whether the selected organizations had assessed the aging IT risks identified, and whether they were designing and implementing cost-effective strategies for preventing, reducing, or avoiding those risks. We expected departments that have significant investments in IT to use a portfolio management approach when setting their priorities for managing the related risks.

#### Risk management practices in some entities need significant improvement

- 1.37 We found that the Canada Revenue Agency (CRA) and the Royal Canadian Mounted Police (RCMP) had assessed their aging IT risks and had put in place strategies to manage those risks through their investment plans. CRA and the RCMP were the only organizations among the five we examined that followed a portfolio management approach. Citizenship and Immigration Canada (CIC), Public Works and Government Services Canada (PWGSC), and Human Resources and Skills Development Canada (HRSDC) did not have department-wide portfolio investment plans to manage their aging IT risks.
- 1.38 Canada Revenue Agency. Recently, the Agency established the Application Sustainability Program to assess the health of its major systems. This new annual process measures operations and business metrics for applications within the portfolio and exposes problem areas and trends that can be addressed across the Agency. The associated investment plan to improve long-term sustainability over the next 10 years was presented to the Agency's Management Committee in 2008.
- Personal Income Tax and Benefits Return administration 1.39 system. Senior management at CRA has agreed that the Personal Income Tax and Benefits Return administration system has significant risks due to aging that need to be addressed as a priority. Its Strategic Investment Plan indicates that the Agency will have sufficient funds available to complete the redesign of two priority income tax systems in its portfolio of IT assets—the Personal Income Tax and Benefits Return administration system and the trust income tax system—if the work is spread out over a period of up to 10 years. Since modernizing the Personal Income Tax and Benefits Return administration system could require up to 70 percent of the funds available, it is doubtful that the Agency will, in fact, have the necessary financial flexibility to commit to these two highest priority projects, let alone the various other business sustainability investments that will be required during the same period. The Agency will have to make some difficult choices to balance the priorities in its portfolio, without putting the integrity of its core tax programs and services at risk. The plan currently lists 19 major investment projects that will be on hold beyond 2018 unless further funds are secured.
- 1.40 Royal Canadian Mounted Police. The RCMP followed a portfolio management approach to prepare its most recent investment plan. It has aligned its IT portfolio with its business strategic objectives.

The IT investment plan describes the IT portfolio in terms of asset condition, asset demand, capacity, and risks. It also links the IT investment strategy to strategic corporate initiatives for major IT assets.

- 1.41 Human Resources and Skills Development Canada. HRSDC developed its first Long-Term Capital Plan in 2008. This plan broadly identified its most significant IT investment priorities. However, the analysis did not provide any specific information about the portfolio of IT assets, such as the sustainability and evaluation criteria for ranking specific investments.
- 1.42 Since then, HRSDC has prepared an update to its Long-Term Capital Plan; however, the analysis remains incomplete. In reviewing the strategies identified to manage the risks related to aging, we found that the Innovation, Information and Technology Branch (IITB) had not performed an analysis to ensure that these strategies are the most cost-effective, relative to other options or solutions. Senior management acknowledges that aging IT presents significant risks, but it has challenged and, in some cases, not approved the approaches identified for dealing with these risks.
- 1.43 Other than the Infrastructure Renewal Program, which has a very detailed analysis, the other projects in the updated Plan have not been prioritized over multiple years, and a portfolio view with timelines, costs, and priorities is missing. The Department needs to provide a complete view of all required IT investments, including those initiated by the program branches, and their relative priority. Without this information, it is difficult to determine how HRSDC will be able to ensure that its systems, including those that support the EI program, will continue to function without continuously requiring emergency funding.
- 1.44 IITB has also identified alignment between IT and business as a significant risk in its 2009–10 risk register. The consequence of business/IT misalignment is reflected most significantly in the current IT-enabled projects, where success depends on common goals and well-defined requirements. As well, the business side of the Department is not taking sufficient ownership of IT issues that have an impact on its programs. HRSDC has responded in the past year by putting in place an investment management process to address this risk and has created a senior departmental committee to oversee this process.

- 1.45 Employment Insurance Program. As stated earlier, IITB has identified both aging infrastructure and legacy applications as risks that have a significant impact on the EI program. To address these, two major initiatives were developed. The first is the Infrastructure Renewal Program, estimated to cost \$214 million over five years. According to IITB, this renewal program is needed to ensure that technology aligns to business requirements to meet the needs and expectations of Canadians. Secondly, the Application Modernization Project addresses the risk posed by the current extensive inventory of custom-built legacy applications that are obsolete and difficult to sustain. At the time of our audit, this project was at the preliminary stage and still needed a comprehensive assessment of applications and the development of an action plan. Currently, IITB estimates that this project will cost between \$100 million and \$150 million over four years.
- 1.46 Citizenship and Immigration Canada. The CIC Information Management Technology Branch (IMTB) prepares an annual business plan where IT risks are measured. Although the plan includes a list of high-priority initiatives, senior management has stated that better methods are needed to further prioritize these initiatives. CIC has completed a comprehensive review of its IT infrastructure; however, it has not reviewed its applications at the same level. The Department has not used a portfolio management approach that considers the interdependence of IT assets. As well, CIC currently does not have an IT investment plan.
- 1.47 Public Works and Government Services Canada, PWGSC currently manages its IT infrastructure centrally, while business applications are managed by each branch.
- PWGSC does not prepare a Department-wide IT investment plan beyond a one-year period. Without such a plan, the Department cannot be sure which aging IT assets need to be replaced. In addition, PWGSC does not manage its IT investments as a portfolio. We did note some elements of investment planning, such as an inventory of IT infrastructure and identified priorities, timelines, and costs associated with its replacement. In addition, the Department developed management plans to address one aging corporate IT-related risk it had identified. However, when we reviewed the plans, we found neither a definite timeline nor any estimated costs to address and mitigate this risk. There is also no formal investment plan to address Department-wide funding shortfalls related to aging IT. PWGSC has launched some initiatives to replace aging IT assets but did so without a formal Department-wide investment plan to address aging IT issues.

1.49 Recommendation. Citizenship and Immigration Canada, Human Resources and Skills Development Canada, and Public Works and Government Services Canada should use a department-wide portfolio management approach to ensure that they focus on current and planned IT investments that best contribute to meeting their business objectives, with an acceptable degree of risk and at a reasonable cost.

Citizenship and Immigration Canada's response. Agreed. Work is already underway, as part of the 2010–11 Integrated Corporate Planning process, to develop a department-wide portfolio approach for IT investments. The Department plans to have the process fully implemented for the 2011–12 planning cycle.

Human Resources and Skills Development Canada's response. Agreed. The Department will continue to strengthen its implementation of a portfolio management approach to move toward an optimum maturity level.

Public Works and Government Services Canada's response. Agreed. While the Department has many of the elements in place, it recognizes the benefits of developing an IT Portfolio Management Framework that will support a portfolio management approach for both IT infrastructure and business applications. The plan will be completed by June 2010 and implemented over the next year.

The Department will also enhance its IT Governance Framework to provide oversight of the portfolio management approach. This framework will respect the unique funding structures of the Department. More specifically, it will support governance of IT systems within programs whose funding models include full cost recovery revolving funds, full cost recovery shared services, and common services funded from the general operating budget.

Using its current approach to managing IT investments, the Department has successfully managed a number of IT-enabled business transformation projects. It has obtained Treasury Board funding for projects by providing business cases that identified risk management strategies. Specifically, it has received funding for two critical modernization projects totalling \$412 million and self-funded \$50 million for other initiatives. Finally, the Department secured funding of \$29 million from Treasury Board for IT infrastructure upgrades and has self-funded \$9 million toward the \$61 million, five-year ever-greening plan.

1.50 Recommendation. Citizenship and Immigration Canada, Human Resources and Skills Development Canada, and Public Works and Government Services Canada should develop a multi-year IT investment plan that presents a balanced mix of mandatory, sustaining, and discretionary investments that they require to both sustain existing systems and to improve service delivery.

Citizenship and Immigration Canada's response. Agreed. The Department already has a multi-year investment plan for IT Infrastructure and will add an application component to create an integrated multi-year investment plan. The plan will indicate the mandatory, sustaining, and discretionary investments for meeting business requirements. The Department plans to complete this work over the next two years.

Human Resources and Skills Development Canada's response. Agreed. The Department is working on a revised multi-year investment plan to be completed in 2010, with specific attention to the full economic life cycle of IT assets and the establishment of quantitative performance metrics for improved risk assessment of our technology assets. This plan will include strategic options analysis and investment scenarios based on available funding sources.

Public Works and Government Services Canada's response. Agreed. The Department will bring together the several existing components of planning from which we will produce a multi-year integrated information management (IM)/IT investment plan that will include all IT investments organized by

- the assets portfolio, which includes mandatory and sustaining investments;
- the innovation and business transformation project portfolio, which includes discretionary investments; and
- the client portfolio, which presents a branch-specific view of all IT investments.

In addition to portfolio information, the IM/IT investment plan will provide a mechanism to consider common IT requirements across the Department to help ensure that maximum value is obtained from IT investments taking into account the most likely availability of funds. This IM/IT investment plan will be updated on an annual basis to reflect past investment decisions, emerging business needs, and the aging of infrastructure and applications. This IM/IT investment plan

will be developed in compliance with the Treasury Board Policy on Management of Information Technology and an initial iteration will be completed by March 2010.

This detailed IM/IT investment plan will complement the integrated investment plan being developed by the Department in compliance with the Treasury Board Policy on Investment Planning—Assets and Acquired Service for which the initial iteration will be provided to the Treasury Board of Canada Secretariat by the end of March 2010. The integrated investment plan will provide a Department-wide overview of the investment planning activities for real property, material, and information technologies.

### Risk monitoring within organizations

- 1.51 In keeping with the Treasury Board Risk Management Policy, we expected that management responsible for protecting IT assets and controlling risks associated with aging IT systems would review their department's risk mitigation and control activities. This would ensure that IT assets are adequately protected and that they could be recovered or replaced within the department's tolerance for loss.
- 1.52 We examined whether the selected organizations were actively monitoring the aging IT risks identified and assessed. We expected the selected organizations to have in place risk action plans that included specific strategies, key activities, deliverables, and timelines to manage these risks. We also expected that progress would be regularly reported to senior management.

#### Monitoring of risks is incomplete

- 1.53 We found that the management of the Canada Revenue Agency (CRA) was aware of the aging IT risks and that managers were monitoring the Agency's ongoing activity to control those risks. We found that the monitoring of risk mitigation and control activities by Citizenship and Immigration Canada (CIC), Human Resources and Skills Development Canada (HRSDC), Public Works and Government Services Canada (PWGSC), and the RCMP was incomplete.
- 1.54 Canada Revenue Agency. The CRA Management Committee and the Resource and Investment Management Committee review all major risks and investment projects regularly to ensure that the Agency has allocated its resources to the highest priority activities and projects. CRA's Risk Action Plan outlines specific strategies, key activities, deliverables, and timelines for the initiatives designed to respond to each of the corporate risks listed in the Corporate Risk Inventory.

- Citizenship and Immigration Canada. In the past year, CIC has implemented a formal quarterly process to monitor its key corporate and business-related risks. However, CIC currently has no formal risk action plans. The Department is currently working to establish performance indicators to improve monitoring and management of the key risks in its corporate risk profile.
- 1.56 Royal Canadian Mounted Police. The RCMP monitors risks through its Integrated Risk Management process and is supported by its Corporate Risk Register System. The risks specifically for aging IT systems are found in the Chief Information Officer (CIO) Sector Risk Register. The Register provides structured information by project or portfolio, which includes many indicators such as risk rating, current status, impact(s), mitigation approach, and risk owner. To validate the assessment of its risks, the CIO Sector created a Strategic Review Committee (SRC) in September 2008. The SRC is responsible for identifying emerging IT risks and providing recommendations, strategic advice, and guidance to the Senior Executive Committee. However, the SRC has not yet started to report its key IT risks to this committee.
- 1.57 Human Resources and Skills Development Canada. As a result of an internal audit of its Integrated Risk Management Framework, HRSDC now requires that a risk status report be prepared by all branches including the Innovation, Information and Technology Branch (IITB). HRSDC has also established a senior committee that approves the updated departmental Risk Management Strategy and monitors its implementation. IITB currently does not have key performance indicators to help it monitor progress against the mitigation strategies for the aging IT risks. IITB has a senior committee to oversee the monitoring of risks; however, there are no minutes or records of decision, and so it was not possible to assess how well this review was working.
- 1.58 Public Works and Government Services Canada, PWGSC submits risk mitigation strategies for each of its branches to its Chief Risk Officer for review as part of the annual and semi-annual planning process as well as for other senior committee reviews. However, we noted that quantitative key performance and risk indicators to assess mitigation progress and independent evaluations could be improved. Such key indicators would help the Department assess to what extent the IT risk, particularly aging IT risks, have been reduced.
- 1.59 Recommendation. Human Resources and Skills Development Canada, Public Works and Government Services Canada, Citizenship and Immigration Canada, and the Royal Canadian Mounted Police

should develop an action plan for each significant aging IT risk. The plans should include specific strategies, key activities, deliverables, and timelines to manage these risks. These entities should report progress regularly to senior management.

Citizenship and Immigration Canada's response. Agreed. Over the next two years, the Department will develop an action plan for each significant aging IT risk. The plan will include specific strategies, activities, and timelines to manage these risks. Additionally, progress will be reported to senior management on a quarterly basis.

Human Resources and Skills Development Canada's response. Agreed. The Department is updating its corporate risk register, and it will continue to monitor and report progress on mitigation strategies to senior management.

Public Works and Government Services Canada's response. Agreed. The Department will use the Operational Risk Profile exercise, which was launched in December 2009 and will finish in March 2010, and the refreshed corporate risk profile to validate the corporate risks, including those relating to aging IT systems and their related applications, and to identify any emerging key risks to Public Works and Government Services Canada.

In addition, an IT-specific risk profile exercise will be conducted with the Departmental IM/IT Steering Committee to develop a departmental IT risk profile. Each of the IT risks will be assessed and prioritized by the Steering Committee. Risk owners for each risk will be identified and engaged in the development of the appropriate risk response strategies. For each risk mitigation strategy, key deliverables will be identified and timelines for completion of those deliverables and indicators to measure success of the strategies will be established. Implementation of these strategies will be monitored and modified when necessary. Their implementation status and success will also be reported to senior management through the Departmental IM/IT Steering Committee and Deputy Minister's Management Committee. The Department will complete implementation of the process by winter 2011.

Royal Canadian Mounted Police's response. Agreed. The RCMP will develop specific strategies, key activities, deliverables, and timelines to manage these risks. As of January 2010, significant IT program risks associated with aging systems are reported on the corporate RCMP Risk Register, in compliance with the Treasury Board

Risk Management Policy. Risk management updates will occur on a quarterly basis.

#### Funding strategy to address risks

We noted earlier that the Treasury Board Policy on Investment Planning—Assets and Acquired Services requires departments to prepare an investment plan that both reflects departmental priorities and outlines planned investments for at least the next five years. The development and approval of an investment plan alone is not enough to address the risks associated with aging systems. We expected to find that organizations had prepared an investment plan that identifies investment options. Further, we expected that the organizations would have presented funding strategies that take into account what source of funding would most likely be available in the five-year planning period.

#### Departmental investment plans need to be supported by a funding strategy

- We found that the departmental investment plans for the Canada Revenue Agency (CRA), Human Resources and Skills Development Canada (HRSDC), and the RCMP did not identify sufficient sources of funding to complete all the initiatives necessary to manage the aging IT risks identified in their respective IT plans. Citizenship and Immigration Canada (CIC) and Public Works and Government Services Canada (PWGSC), as stated earlier, did not have multi-year investment plans.
- 1.62 CRA was the only organization that had completed a multi-year investment plan that identified investment options. It was also the only one to develop funding priorities that took into account what funding would most likely be available in the five-year planning period.
- In our audit report on the Management of IT Investments at CRA, presented in December 2008, we found that about one third of the Agency's national applications—of which about 50 percent were considered critical to enable it to fulfill its mandate—were at risk because they were not sustainable in the long term. The OAG recommended, in part, that the Canada Revenue Agency finish developing its multi-year Strategic Investment Plan and document clear evaluation criteria for prioritizing and selecting IT investments for the portfolio.
- The Agency has followed up on this recommendation. It introduced a more formal process to plan and set priorities for its major strategic investment projects. The process centred on developing the

Strategic Investment Plan with a multi-year view of current and future investments in major projects.

- 1.65 CRA identified in its Strategic Investment Plan a total of 55 investments estimated to cost \$1.8 billion over 10 years. After assessing this list of investments, senior management reduced it to 24 critical, high-value investments that cost about \$1.24 billion over the same period. The Agency has \$410 million available to finance these investments over the next 10 years. This leaves a funding shortfall of \$830 million. CRA management has determined that the inability to make the critical investments to replace aging IT presents an unacceptable risk to its continuing operations. At the time of our audit, the Agency had not yet secured additional funding to address the shortfall.
- 1.66 In 2008, HRSDC prepared its first Long-Term Capital Plan. A senior departmental committee oversaw its development to ensure that investment strategies aligned with the overall direction and priorities of the Department. The investment priorities that resulted from this process were assessed and ranked to determine an overall funding scenario. These investments were deemed necessary to allow HRSDC to maintain its operations and meet minimum program outcomes, as well as to develop capacity to meet future priorities. This list of investments consists of 20 projects and initiatives that cost an estimated \$947.4 million over five years. Given that the current five-year base funding level of the Department is \$424 million over five years, the above estimates result in a shortfall of \$523.4 million. Senior management discussed the 2008 Long-Term Capital Plan but did not approve the projects, approach, and funding requirements.
- 1.67 Since HRSDC developed its initial Long-Term Capital Plan, it has updated it with comprehensive details for IT infrastructure renewal. However, the application projects in the updated plan are not ranked and an updated funding strategy has not been included. Without this information, the full long-term funding requirements of HRSDC to address its aging IT risks are unclear.
- 1.68 The RCMP's latest investment plan was prepared in 2009 to comply with the new Treasury Board Policy on Investment Planning. The investments identified in the plan were reviewed to ensure that resources would be allocated according to the Department's needs. The RCMP's challenge is to maintain funding for operational readiness while at the same time investing in large capital mission-critical systems. The funding requirements identified for IT totalled \$1.257 billion over five years. Given that the existing base funding is

\$637 million over five years, the resulting shortfall amounts to \$620 million. The RCMP has not yet prioritized its investment needs to develop an overall funding strategy for its IT portfolio.

- 1.69 For the three organizations we reviewed that have departmental investment plans—CRA, HRSDC, and the RCMP—we found significant shortfalls in available funding that could prevent them from making all the investments they need to modernize their critical information systems and technology infrastructure. These three organizations alone have estimated the funding shortfall at \$2 billion. We have not audited or attempted to verify the accuracy of the investment proposals included in these departmental investment plans. However, the funding shortfall indicates a significant challenge facing departments that are required to sustain and improve some of the most complex and critical information systems in the Government of Canada. We also found that, except for the Canada Revenue Agency, these departments had made proposals for funding to control aging IT risks on a project-by-project basis. The Canada Revenue Agency is the only organization that has made a comprehensive proposal to obtain long-term capital funding so that it can make continuing investments to modernize its entire portfolio of information systems and technology assets.
- 1.70 Of note is that 28 of 40 chief information officers (CIOs) we surveyed stated that insufficient funding is by far the major obstacle or challenge their organizations are facing in modernizing their aging IT systems. The CIOs in 8 of the 10 largest departments reported that obtaining funding was the greatest obstacle they experienced.
- 1.71 Recommendation. Human Resources and Skills Development Canada and the Royal Canadian Mounted Police should identify an appropriate funding strategy. The funding strategy should present investment options, or scenarios that take into account what source of funding would most likely be available in the five-year planning period.

Human Resources and Skills Development Canada's response. Agreed. The Department will review its enterprise-wide governance model to ensure the right processes are in place for IT priorities, their funding strategy, and assignment of resources to a balanced mix of IT-enabled projects.

Royal Canadian Mountain Police's response. Agreed. The RCMP's latest investment plan was prepared in 2009 to comply with the new Treasury Board Policy on Investment Planning. The IT investments included in the plan will be reviewed and updated on a quarterly basis

to ensure resources are allocated according to the RCMP's needs. IT investments will be prioritized based on operational priorities governed by the Chief Information Officer Strategic Review Council.

## Risk identification and management by the Treasury Board of Canada Secretariat

- 1.72 Although, deputy heads are accountable to their respective ministers and to the Treasury Board for the management of assets and acquired services in their departments, including information technology, they cannot always address the risk posed by aging IT systems alone. Many of the practices commonly used to address the modernization of aging IT systems, such as common and shared services, cannot be implemented by a single department or agency. In effect, central leadership and coordination by the Chief Information Officer Branch (CIOB) is required to implement these practices.
- 1.73 According to the Policy on Management of Information Technology, the Treasury Board of Canada Secretariat (the Secretariat) is responsible for establishing and implementing the overall government-wide strategic directions for IT. This involves identifying areas that offer significant government-wide benefits or are of importance to the government. The Secretariat is also responsible for leading necessary initiatives to achieve government-wide solutions.
- 1.74 We expected CIOB to have assessed whether the aging of critical IT systems poses significant government-wide risks. CIOB should have worked with departments to establish and implement relevant government-wide strategic directions and have led the necessary initiatives for managing those risks. We examined whether the Treasury Board of Canada Secretariat, and specifically its Chief Information Officer Branch, has determined if aging IT systems is an area of importance to the government as a whole, and the extent to which it has provided direction or leadership in developing government-wide responses to address the related risks.

#### The Chief Information Officer Branch has been aware of the significant risks of aging IT for over a decade

- 1.75 We found that over the last decade, many federal departments and agencies, including CIOB, have identified aging (also referred to as "rust-out") as a risk, and stated that critical aging IT systems pose significant government-wide risks. This has been communicated to CIOB in various ways, described in the next few paragraphs.
- 1.76 In 1999, CIOB identified IT capital rust-out as a horizontal issue and described this issue as the deterioration or obsolescence of hardware and software that cannot be or has not been upgraded

to meet operational requirements or that may pose a risk to meeting minimal service delivery standards and stated that it must be addressed.

- 1.77 A survey on the IT status of the Government of Canada, reported on in the 2004 Expenditure Review Committee studies, identified risks relating to the aging of IT systems. These risks included the lack of consistent, ongoing infrastructure investment and renewal, and the inability of aging systems to adapt to new requirements—both legislative and operational. Also in 2004, Citizenship and Immigration Canada (CIC) accessed some of the federal rust-out funding to address the aging IT issues it was experiencing at the time.
- 1.78 In 2005, the Secretariat published an Information Technology Services Review entitled Strategies for Improving IT and its Management, which presented the results of an assessment of the state of IT in the federal government. It noted, among other things, that the Government of Canada under-invests in up-to-date hardware and software tools in comparison with "peer enterprises."
- 1.79 In recent years, as more and more departments have prepared corporate risk profiles based on the Secretariat's Integrated Risk Management Framework, they have been identifying and documenting several risks related to aging IT systems. For example, HRSDC noted such concerns in many documents submitted to the Secretariat, including its corporate risk profile for the past three years. In addition, other entities, such as PWGSC, CIC, the RCMP, and CRA, also submitted documents pointing to the need to update and modernize their IT systems. Moreover, a search of the Government of Canada website has resulted in numerous references to risks and sustainability issues associated with aging IT assets in federal departments.
- 1.80 Furthermore, the Prime Minister's Advisory Committee on the Public Service reported in February 2009 that the IT systems currently in place are inadequate considering the government's goal of achieving an innovative and efficient workplace. The Committee recognizes that investments to modernize IT systems are long overdue but understands the reluctance to address this issue because of the potential significant investments required.

#### The Chief Information Officer Branch is not fully exercising its central leadership in addressing aging IT risks

1.81 As aging IT has been identified as a significant risk, we expected CIOB to have demonstrated its central leadership for addressing this risk across the government. Central leadership is exercised by setting

government-wide strategic directions through a formal course of action that leads to the achievement of goals. As CIOB is responsible for establishing and implementing IT strategic directions across the government, we expected that CIOB would have developed an IT strategy that would include

- a vision;
- the areas of importance;
- the associated risks addressed through IT strategic directions;
- the milestones, deliverables, measurable outcomes, and benefits; and
- the assignment of responsibility for monitoring and reporting on progress.
- 1.82 CIOB has initiated some work that relates indirectly to the aging of IT systems. For example, it has provided some direction to entities via policies, standards, guidelines, tools, and other means on how key risks are to be identified and reported. CIOB has engaged with the IT community using electronic tools, such as email and social networking, as well as formal and informal face-to-face meetings.
- 1.83 CIOB has made a number of presentations on information technology trends at various events during the past few years. These presentations clearly showed that CIOB was aware of aging IT risks and potential solutions for the government as a whole. In one presentation, it named the lack of consistent, ongoing IT infrastructure investment and renewal as one of the six drivers for change in the Government of Canada. However, it has not formally established any strategic directions since 1999.
- 1.84 CIOB has not systematically gathered and analyzed information to assess the nature, extent, and impact of aging IT risks across the government. Currently, CIOB does not have a government IT strategy that outlines the IT vision, the strategic directions, the priorities, and work plans with clearly defined milestones and resource requirements.
- 1.85 CIOB has not assessed the magnitude or the urgency of funding required to address the issue of aging IT systems in the coming years. As mentioned previously, the estimated funding shortfall for HRSDC, the RCMP, and CRA alone represents about \$2 billion. Given the magnitude of investments required to address aging IT risks, such an analysis would provide CIOB with a global view of the immediate and longer term investments required to address the issue.

1.86 Recommendation. The Chief Information Officer Branch (CIOB) of the Treasury Board of Canada Secretariat should exercise its central leadership role by collecting and analyzing relevant information to assess the state of aging IT systems across government. The CIOB should prepare a report on its assessment and the related cost estimates for the government as a whole. In consultation with deputy heads, it should also develop a plan that will set the IT strategic directions for the government to mitigate risks associated with aging IT systems on a sustainable basis.

Treasury Board of Canada Secretariat's response. Agreed.

The Secretariat agrees but notes that it does not formulate funding or investment needs either for departments or for the government; current and future investment needs, and decisions related thereto, are developed and made by ministers and Cabinet, as well as by deputy heads under their authorities.

In consultation with deputy heads and the chief information officer community, the Chief Information Officer Branch (CIOB) of the Secretariat will prepare a report on the state of the aging IT systems that present material risk to the government. CIOB will also develop a strategic direction for IT systems for the government of Canada, and supporting guidance for use by departments, that will help them address ever-greening for mission critical IT systems. The strategic direction developed in concert with the CIO community will assist departments in setting their IT investment priorities, including for aging IT systems that are material to the government.

The assessment of aging IT systems will be completed by April 2011. The strategic direction and supporting guidance for ever-greening mission critical IT systems will be completed by March 2012, and departments will be encouraged to implement the guidance, starting in fiscal 2012–13.

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#### Conclusion

- 1.87 The five entities we reviewed—the Canada Revenue Agency (CRA), Public Works and Government Services Canada (PWGSC), Human Resources and Skills Development Canada (HRSDC), the Royal Canadian Mounted Police (RCMP) and Citizenship and Immigration Canada (CIC)—have identified and taken some steps to manage the risks related to their aging IT systems.
- 1.88 We found that over the last decade, departments and agencies as well as the Chief Information Officer Branch (CIOB) of the Treasury Board of Canada Secretariat have been aware of the aging IT risks. However, no strategic directions have been formally established by CIOB since 1999. The Treasury Board of Canada Secretariat, through CIOB, should exercise its central leadership role and develop a formal government-wide IT strategy to provide strategic directions that would include a global estimate to address the current and future investment needs for the government on a sustainable basis.
- 1.89 The management of the risks presented by aging IT systems could be significantly improved in several of the departments that we audited. We found important gaps in the manner in which these entities are managing the risks.
  - As noted earlier, CRA is the only one of the five entities we examined that could demonstrate that it had adequately identified, managed, and controlled the significant risks associated with its aging information systems. It has prepared a multi-year strategic investment plan to manage its portfolio of IT investments. The Agency has identified a significant shortfall to address critical investments that, if they remain unfunded, could put their operations at risk.
  - The RCMP has prepared multiple documents, including a five-year investment plan, which identifies several issues about aging IT systems. It has not yet prioritized its investment needs to develop an overall funding strategy for its IT portfolio.
  - PWGSC does not manage its IT investments by portfolio.
     Its IT investments are prioritized within each branch, using branch specific criteria. PWGSC has not prepared a multi-year IT investment plan for the whole Department.
  - HRSDC has developed its first Long-Term Capital Plan, which identified and prioritized its most significant investments in

- information technology. Work is still needed to further develop evaluation criteria for prioritizing IT investments.
- CIC recognizes that it needs to evaluate its entire portfolio of IT assets and prepare an investment plan that goes beyond ensuring the sustainability of existing infrastructure assets. CIC has yet to develop an investment plan that will use a portfolio management approach to arrive at an appropriate balance of IT investments.
- Two of the three systems we examined (the Personal Income Tax and Benefits Return administration system and the Employment Insurance program) contain significant aging IT risks that, if left unaddressed, will cause an unacceptable level of risk and could disrupt the distribution of employment insurance benefits or the assessment of personal income tax.

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#### About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

#### **Objectives**

The objective of our audit was to determine whether selected entities had adequately identified and were managing the risks related to critical aging information technology (IT) systems.

#### Scope and approach

In examining how well the Government of Canada was identifying and managing the risks related to aging IT systems across the government, we carried out the following tasks:

- We looked at the extent to which the Treasury Board of Canada Secretariat (the Secretariat) and five government organizations had identified and managed the IT-related risks noted above. The five organizations were the Canada Revenue Agency (CRA), Public Works and Government Services Canada (PWGSC), Human Resources and Skills Development Canada (HRSDC), the Royal Canadian Mounted Police (RCMP), and Citizenship and Immigration Canada (CIC). These five entities met the following selection criteria:
  - They deliver significant services to Canadians.
  - They are large organizations that rely extensively on IT systems in delivering services.
  - They represent material (significant) IT expenditures and involve IT-related risk, including risks associated with aging IT systems.
- In addition, we examined three critical systems from the entities selected: HRSDC Employment Insurance Program, CRA Personal Income Tax and Benefits Return administration system, and PWGSC Standard Payment System. These systems were selected because they are central to delivering critical services to Canadians, such as processing and calculating personal and corporate taxes and pensions and other income-related benefits. Any failure of these key systems would directly affect businesses and the lives of Canadians.
- Finally, we surveyed the chief information officers in 40 government organizations included in the Treasury Board of Canada Secretariat's Chief Information Officer Council. Collectively, these organizations account for more than 95 percent of the federal government's expenditures on IT. The purpose of the survey was to determine the state of the government's aging IT systems and infrastructure. Specifically, the survey was designed to create a broad, representative picture of the risks that aging, critical IT systems pose to delivering government services. The results of the survey also provided us with an overview of specific practices that government departments and agencies are using to modernize their aging IT infrastructure and systems. The response rate to the survey was 100 percent.

Our approach included interviewing officials at the Secretariat and in the five selected entities, analyzing various documents (policies and guidelines), and meeting employees and managers involved in global or IT risk management. In addition to our work at headquarters, the audit included a visit to HRSDC's. Montreal data and call centres.

#### Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources			
We expected the central agencies to have assessed whether aging critical IT systems pose risks for the government as a whole.	Policy on Management of Information Technology, section 8, Treasury Board, 2007			
We expected the central agencies, where appropriate, to have either provided direction, or led initiatives to provide government-	Policy on Management of Information Technology, section 8, Treasury Board, 2007			
wide solutions to respond to the risks posed by aging critical systems.	<ul> <li>Policy on Investment Planning—Assets and Acquired Services section 6.2, Treasury Board, 2007</li> </ul>			
	Implementation Strategy for the Policy on Investment Planning—Assets and Acquired Services, Treasury Board			
	• Policy on the Management of Projects, section 6.1, Treasury Board, 2007			
	Directive on Management of Information Technology, section 8.1, Treasury Board, 2009			
We expected selected entities to have adequately identified the risks relating to aging IT systems.	<ul> <li>Policy on Investment Planning—Assets and Acquired Services sections 3.4 and 6.2, Treasury Board, 2007</li> </ul>			
	Risk Management Policy—Appendix B, Phase 1, Treasury Board, 2001			
	Integrated Risk Management Framework—Element 1:     Developing the Corporate Risk Profile, Treasury Board			
	Val IT Framework 2.0—IM4: Develop full life-cycle costs and benefits, IT Governance Institute			
	COBIT 4.1, PO9.3: Event Identification; PO9.4: Risk     Assessment; PO9.5: Risk Response, IT Governance Institute			
We expected selected entities to have adequately managed the risks relating to aging IT systems.	<ul> <li>Policy on Investment Planning—Assets and Acquired Services sections 3.4 and 6.2, Treasury Board, 2007</li> </ul>			
	Risk Management Policy—Appendix B, Phases 2 and 3, Treasury Board, 2001			
	Integrated Risk Management Framework—Element 3:     Practising Integrated Risk Management			
	<ul> <li>Val IT Framework 2.0, VG5.3: Define reporting methods and techniques; PM5.1: Monitor and report on investment portfolio performance; PM6.1: Optimise investment portfolio performance; IM4: Develop full life-cycle costs and benefits, IT Governance Institute</li> </ul>			
	COBIT 4.1, PO9.1: IT Risk Management Framework; PO9.5: Risk Response; PO9.6: Maintenance and Monitoring of a Risk Action Plan, IT Governance Institute			

Criteria	Sources
We expected the selected entities to have adequately identified the risks relating to selected critical IT systems.	Policy on Investment Planning—Assets and Acquired Services sections 3.4 and 6.2, Treasury Board, 2007
	Risk Management Policy—Appendix B, Phase 1, Treasury Board, 2001
	<ul> <li>Integrated Risk Management Framework—Element 1: Developing the Corporate Risk Profile, Treasury Board</li> </ul>
	Val IT Framework 2.0—IM4: Develop full life-cycle costs and benefits, IT Governance Institute
	COBIT 4.1, PO9.3: Event Identification; PO9.4: Risk Assessment; PO9.5: Risk Response, IT Governance Institute
We expected the selected entities to have adequately managed the risks relating to selected critical IT systems.	Policy on Investment Planning—Assets and Acquired Services sections 3.4 and 6.2, Treasury Board, 2007
	Risk Management Policy—Appendix B, Phases 2 and 3, Treasury Board, 2001
	Integrated Risk Management Framework—Element 3:     Practising Integrated Risk Management, Treasury Board
	• Val IT Framework 2.0, VG5.3: Define reporting methods and techniques; PM5.1: Monitor and report on investment portfolio performance; PM6.1: Optimise investment portfolio performance; IM4: Develop full life-cycle costs and benefits, IT Governance Institute
	COBIT 4.1, PO9.1: IT Risk Management Framework; PO9.5: Risk Response; PO9.6: Maintenance and Monitoring of a Risk Action Plan, IT Governance Institute

Management reviewed and accepted the suitability of the criteria used in the audit.

#### Period covered by the audit

The period under audit is from 2007 to 2009. Other documents reviewed that were pertinent to the period under audit go as far back as 1999. Audit work for this chapter was substantially completed on 30 November 2009.

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#### **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation Response Risk management within organizations Citizenship and Immigration Canada's response. Agreed. 1.49 Citizenship and Immigration Canada, Human Resources and Skills Work is already underway, as part of the 2010-11 Integrated Development Canada, and Public Corporate Planning process, to develop a department-wide Works and Government Services portfolio approach for IT investments. The Department plans to Canada should use a department-wide have the process fully implemented for the 2011–12 planning portfolio management approach to cycle. ensure that they focus on current Human Resources and Skills Development Canada's and planned IT investments that best response. Agreed. The Department will continue to strengthen contribute to meeting their business its implementation of a portfolio management approach to move objectives, with an acceptable degree toward an optimum maturity level. of risk and at a reasonable cost. (1.34 - 1.48)Public Works and Government Services Canada's response. Agreed. While the Department has many of the elements in place, it recognizes the benefits of developing an IT Portfolio Management Framework that will support a portfolio management approach for both IT infrastructure and business applications. The plan will be completed by June 2010 and implemented over the next year. The Department will also enhance its IT Governance Framework to provide oversight of the portfolio management approach. This framework will respect the unique funding structures of the Department. More specifically, it will support governance of IT systems within programs whose funding models include full cost recovery revolving funds, full cost recovery shared services, and common services funded from the general operating budget.

Recommendation Response

1.50 Citizenship and Immigration Canada, Human Resources and Skills Development Canada, and Public Works and Government Services Canada should develop a multi-year IT investment plan that presents a balanced mix of mandatory, sustaining, and discretionary investments that they require to both sustain existing systems and to improve service delivery. (1.34–1.48)

Using its current approach to managing IT investments, the Department has successfully managed a number of IT-enabled business transformation projects. It has obtained Treasury Board funding for projects by providing business cases that identified risk management strategies. Specifically, it has received funding for two critical modernization projects totalling \$412 million and self-funded \$50 million for other initiatives. Finally, the Department secured funding of \$29 million from Treasury Board for IT infrastructure upgrades and has self-funded \$9 million toward the \$61 million, five-year ever-greening plan.

Citizenship and Immigration Canada's response. Agreed. The Department already has a multi-year investment plan for IT Infrastructure and will add an application component to create an integrated multi-year investment plan. The plan will indicate the mandatory, sustaining, and discretionary investments for meeting business requirements. The Department plans to complete this work over the next two years.

Human Resources and Skills Development Canada's response. Agreed. The Department is working on a revised multi-year investment plan to be completed in 2010, with specific attention to the full economic life cycle of IT assets and the establishment of quantitative performance metrics for improved risk assessment of our technology assets. This plan will include strategic options analysis and investment scenarios based on available funding sources.

Public Works and Government Services Canada's response. Agreed. The Department will bring together the several existing components of planning from which we will produce a multi-year integrated information management (IM)/IT investment plan that will include all IT investments organized by

- the assets portfolio, which includes mandatory and sustaining investments;
- the innovation and business transformation project portfolio, which includes discretionary investments; and
- the client portfolio, which presents a branch-specific view of all IT investments.

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# Recommendation In addition to portfolio information, the IM/IT investment plan will provide a mechanism to consider common IT requirements across the Department to help ensure that maximum value is obtained from IT investments taking into account the most likely availability of funds. This IM/IT investment plan will be updated on an annual basis to reflect past investment decisions, emerging business needs, and the aging of infrastructure and applications. This IM/IT investment plan will be developed in compliance with the Treasury Board Policy on Management of Information Technology and an initial iteration will be

completed by March 2010.

This detailed IM/IT investment plan will complement the integrated investment plan being developed by the Department in compliance with the Treasury Board Policy on Investment Planning—Assets and Acquired Service for which the initial iteration will be provided to the Treasury Board of Canada Secretariat by the end of March 2010. The integrated investment plan will provide a Department-wide overview of the investment planning activities for real property, material, and information technologies.

#### Risk monitoring within organizations

1.59 Human Resources and Skills
Development Canada, Public Works
and Government Services Canada,
Citizenship and Immigration Canada,
and the Royal Canadian Mounted
Police should develop an action plan for
each significant aging IT risk. The plans
should include specific strategies, key
activities, deliverables, and timelines to
manage these risks. These entities
should report progress regularly to
senior management.

(1.51 - 1.58)

## Citizenship and Immigration Canada's response. Agreed. Over the next two years, the Department will develop an action plan for each significant aging IT risk. The plan will include specific strategies, activities, and timelines to manage these risks. Additionally, progress will be reported to senior management on a quarterly basis.

Human Resources and Skills Development Canada's response. Agreed. The Department is updating its corporate risk register, and it will continue to monitor and report progress on mitigation strategies to senior management.

Public Works and Government Services Canada's response. Agreed. The Department will use the Operational Risk Profile exercise, which was launched in December 2009 and will finish in March 2010, and the refreshed corporate risk profile to validate the corporate risks, including those relating to aging IT systems and their related applications, and to identify any emerging key risks to Public Works and Government Services Canada.

#### Recommendation

#### Response

In addition, an IT-specific risk profile exercise will be conducted with the Departmental IM/IT Steering Committee to develop a departmental IT risk profile. Each of the IT risks will be assessed and prioritized by the Steering Committee. Risk owners for each risk will be identified and engaged in the development of the appropriate risk response strategies. For each risk mitigation strategy, key deliverables will be identified and timelines for completion of those deliverables and indicators to measure success of the strategies will be established. Implementation of these strategies will be monitored and modified when necessary. Their implementation status and success will also be reported to senior management through the Departmental IM/IT Steering Committee and Deputy Minister's Management Committee. The Department will complete implementation of the process by winter 2011.

Royal Canadian Mounted Police's response. Agreed. The RCMP will develop specific strategies, key activities, deliverables, and timelines to manage these risks. As of January 2010, significant IT program risks associated with aging systems are reported on the corporate RCMP Risk Register, in compliance with the Treasury Board Risk Management Policy. Risk management updates will occur on a quarterly basis.

#### Funding strategy to address risks

1.71 Human Resources and Skills Development Canada and the Royal Canadian Mounted Police should identify an appropriate funding strategy. The funding strategy should present investment options, or scenarios that take into account what source of funding would most likely be available in the five-year planning period. (1.60–1.70)

Human Resources and Skills Development Canada's response. Agreed. The Department will review its enterprise-wide governance model to ensure the right processes are in place for IT priorities, their funding strategy, and assignment of resources to a balanced mix of IT-enabled projects.

Royal Canadian Mountain Police's response. Agreed. The RCMP's latest investment plan was prepared in 2009 to comply with the new Treasury Board Policy on Investment Planning. The IT investments included in the plan will be reviewed and updated on a quarterly basis to ensure resources are allocated according to the RCMP's needs. IT investments will be prioritized based on operational priorities governed by the Chief Information Officer Strategic Review Council.

Recommendation

Response

#### Risk identification and management by the Treasury Board of Canada Secretariat

The Chief Information Officer Branch (CIOB) of the Treasury Board of Canada Secretariat should exercise its central leadership role by collecting and analyzing relevant information to assess the state of aging IT systems across government. The CIOB should prepare a report on its assessment and the related cost estimates for the government as a whole. In consultation with deputy heads, it should also develop a plan that will set the IT strategic directions for the government to mitigate risks associated with aging IT systems on a sustainable basis. (1.72 - 1.85)

Treasury Board of Canada Secretariat's response. Agreed. The Secretariat agrees but notes that it does not formulate funding or investment needs either for departments or for the government; current and future investment needs, and decisions related thereto, are developed and made by ministers and Cabinet, as well as by deputy heads under their authorities.

In consultation with deputy heads and the chief information officer community, the Chief Information Officer Branch (CIOB) of the Secretariat will prepare a report on the state of the aging IT systems that present material risk to the government. CIOB will also develop a strategic direction for IT systems for the government of Canada, and supporting guidance for use by departments, that will help them address ever-greening for mission critical IT systems. The strategic direction developed in concert with the CIO community will assist departments in setting their IT investment priorities, including for aging IT systems that are material to the government.

The assessment of aging IT systems will be completed by April 2011. The strategic direction and supporting guidance for ever-greening mission critical IT systems will be completed by March 2012, and departments will be encouraged to implement the guidance, starting in fiscal 2012–13.

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Message from the Auditor General of Canada



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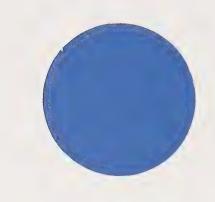
Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

Chapter 2
Modernizing Human Resource Management



Office of the Auditor General of Canada



## 2010



Report of the

## Auditor General of Canada

to the House of Commons

**SPRING** 

Chapter 2 Modernizing Human Resource Management





Office of the Auditor General of Canada

The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

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Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2010 Cat. No. FA1-2010/1-2E ISBN 978-1-100-15332-2 ISSN 0821-8110





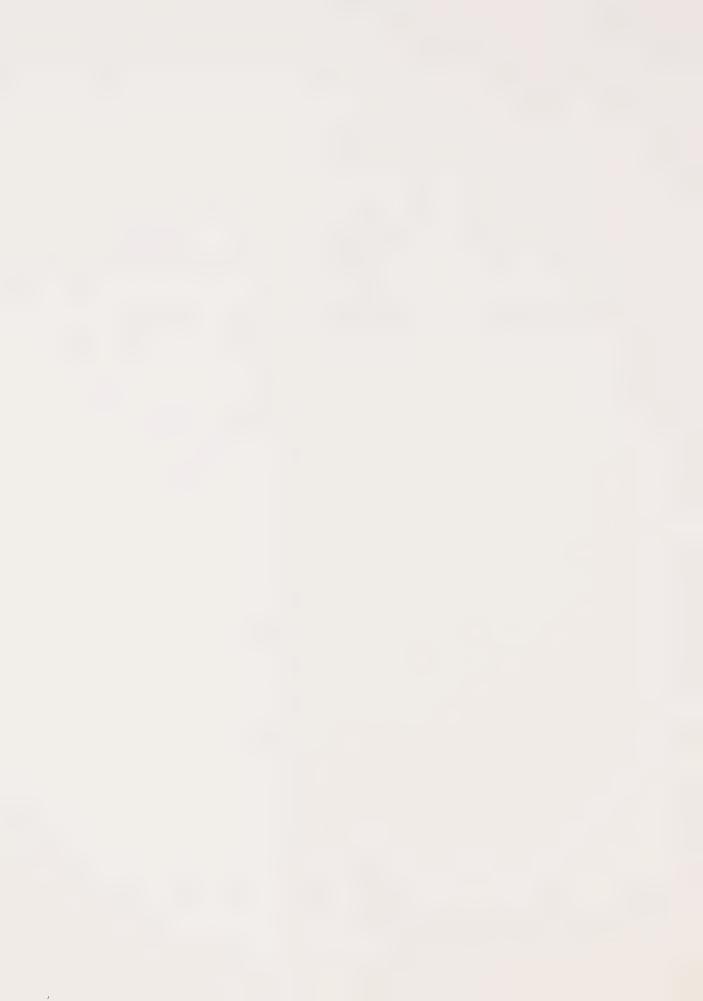




#### Chapter

2

Modernizing Human Resource Management



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## Modernizing Human Resource Management

#### **Main Points**

#### What we examined

The *Public Service Modernization Act* (PSMA), introduced in 2003, represents the most significant reform of human resource management since the 1960s. A complex undertaking, the legislation brings into play a multitude of stakeholders, from central human resource agencies to deputy heads, line managers, and human resource professionals. The Act, which amends four pieces of legislation, is designed to transform the way the federal government hires, manages, and supports its employees. It calls for more flexible approaches to hiring, clearer roles and accountability for human resource management, harmonious labour-management relations, and better integration of training and development for public service employees.

In 2005, we reported that the government had established a strong foundation for managing the implementation of the PSMA. In this audit, we examined whether the central human resource agencies have implemented the new legislative requirements flowing from the PSMA, met the legislative reporting requirements, and reported on the progress of the Act's implementation. We examined whether these agencies as well as deputy heads have exercised the new or revised roles and responsibilities in accordance with the legislation. We also looked at preparations for the upcoming legislative review called for in the Act.

We did not audit the impacts of the legislation on the human resource management regime. We also did not examine changes being made as part of other initiatives that affect human resource management.

Audit work for this chapter was substantially completed in September 2009.

#### Why it's important

With over 200,000 employees in departments and agencies providing advice to government and services to Canadians, the human resource investment in the public service represents a significant portion of the government's annual expenditures. The legislation was implemented to respond to long-standing concerns that the human resource management regime was cumbersome, complex, inflexible, and

outdated and that roles and responsibilities were fragmented. Sound management of human resources is critical to an effective public service and better service to Canadians.

#### What we found

- The key requirements of the legislation have been implemented. Changes have been made to allow for more flexibility in how the public service is staffed and how recourse is managed. Mechanisms have been put in place to foster harmonious labour relations and to resolve disputes more informally. Primary responsibility for human resource management has been transferred to deputy heads, who now exercise those direct responsibilities as well as those delegated to them for human resource management and staffing.
- Organizational changes have been made as part of the implementation of the legislation. As a result, new organizations were created and others saw their mandate and role enhanced. In an attempt to resolve remaining concerns about governance, in 2009 the government created the Office of the Chief Human Resources Officer within the Treasury Board of Canada Secretariat.
- There have been difficulties encountered in implementing some aspects of the legislation, including the application of some of the new tools and mechanisms.
- The various entities required to report to Parliament on human resource management have generally met the requirements. Reports provide information about the implementation process and some activities. However, despite a commitment in 2005 by the Treasury Board of Canada Secretariat and the former Public Service Human Resources Management Agency of Canada to report on interim achievements, reports provide only some of that information.
- The legislation calls for a legislative review of the *Public Service Employment Act* and the *Public Service Labour Relations Act*. The minister responsible for the review has been designated, and a review team has been put in place. Preparation for the review is progressing. However, insufficient information on whether the results expected from the legislation have been achieved could limit the review team's ability to provide meaningful information to support the review and to inform Parliament.

The entities have responded. The Treasury Board of Canada Secretariat and the PSMA Legislative Review Team agree with our recommendations. Their detailed responses follow each recommendation throughout the chapter.

#### Introduction

#### A new legislative framework

- 2.1 The *Public Service Modernization Act* (PSMA) was introduced in 2003 and came fully into force in 2005. The implementation of this new legislation is a complex undertaking involving many stakeholders, including several central human resource agencies, as well as deputy heads, line managers, and human resource professionals (Exhibit 2.1).
- 2.2 In light of the significant role of the public service and its employees in supporting the government's programs and services, the government considered it important that new legislation be implemented to remove what it saw as cumbersome, inflexible, complex, and outdated elements of the former human resource management regime. The government also viewed the legislation as an important tool in helping to ensure a more responsive public service in addressing the changing needs of Canadians and delivering better service to them. The PSMA was the response to the need for a modern institutional framework for managing human resources.
- **2.3** The PSMA is intended to transform the way the federal government hires, manages, and supports its employees and to address many long-standing issues related to staffing and labour relations. It also aims to clarify roles and accountability of deputy heads and of central human resource agencies with responsibilities under the Act. The PSMA includes four pieces of legislation, as follows:
  - Public Service Labour Relations Act (PSLRA). The new PSLRA is intended to foster constructive and harmonious labour-management relations to improve the quality of the workplace. It also gives the Public Service Labour Relations Board increased responsibility for resolving labour relations disputes, carrying out compensation analysis and research, and providing mediation services.
  - Public Service Employment Act (PSEA). The amended PSEA is intended to modernize the staffing system by providing for more flexible hiring approaches. These new approaches should help to improve the public service's ability to attract and hire the right people when and where they are needed to deliver programs and services. The Act defines merit, enhances flexibility, and provides new requirements related to the political activities of public servants. The PSEA encourages resolution of staffing complaints at the departmental level and includes new arrangements to

resolve them. The Act also creates the new Public Service Staffing Tribunal as a body responsible for handling staffing complaints related to lay-offs, revocation of appointments, allegations of abuse of authority, and the implementation of corrective action ordered by the Tribunal.

- Canada School of Public Service Act. This act provides a
  mandate to the Canada School of Public Service to provide a
  unified and integrated approach supporting a culture of
  continuous learning and innovation in the public service. The
  Canada School of Public Service amalgamated the former
  Canadian Centre for Management Development, Language
  Training Canada, and Training and Development Canada.
- Financial Administration Act (FAA). A revision to the FAA makes deputy heads directly responsible for certain aspects of human resource management, while maintaining the Treasury Board as the employer, and requires the President of the Treasury Board to report to Parliament on human resource management.
- 2.4 The new legislation requires organizations under its jurisdiction to implement some specific measures, such as the new approach to merit-based appointments and mechanisms to manage workplace conflicts informally, including labour management consultation committees. It also makes measures and tools available to departments and agencies that would allow for more flexibility in managing their human resources.
- 2.5 The Public Service Labour Relations Act and the Public Service Employment Act require the designated minister to ensure that the administration and operation of both acts are reviewed five years after the acts come into force.
- 2.6 The four pieces of legislation contained in the PSMA affect numerous departments and agencies in the federal public service. Full implementation of this legislation is necessary so that the government can meet its objectives of achieving faster hiring, harmonious labour relations, and a culture of continuous learning and innovation in the public service.

#### Findings in 2005

2.7 In 2005, we audited the management of implementation of the PSMA and other non-legislative human resource modernization initiatives. We reported that the government had established a good

foundation for managing the implementation process. We also reported that while, for the most part, roles and responsibilities for human resource management had been clarified in the legislation, we remained concerned about the division of roles and responsibilities between the Treasury Board as the employer and the human resource management agency created in 2003. We also reported that the government needed to clearly define the outcomes it expected from this reform, and monitor and report on progress, particularly in view of the legislated five-year review.

2.8 In addition, we reported that other non-legislative changes had been identified to support the new human resource management regime. The government expected that, collectively, the legislative changes and other reforms would simplify and further improve human resource management. Although the legislation was a catalyst for change, several other factors, initiatives, and driving forces affect the new regime. These include classification reform, improvements in human resource planning, and the review of human resource policies and other legislation.

#### Focus of the audit

- 2.9 The overall objective of our audit was to determine whether central human resource agencies and selected departments and agencies have implemented the new requirements of the *Public Service Modernization* Act, including reporting on and assessing progress, and exercised their respective responsibilities (as referred to in Exhibit 2.1). We looked at whether the structures and processes required by the legislation have been put in place. However, we did not audit whether the legislation has achieved the results intended, but rather if the required reports contained such information. We also examined whether the objective and requirements for the legislative review have been established.
- **2.10** We did not examine other non-legislative initiatives, such as classification reform, improvements in human resource planning, and the Treasury Board of Canada Secretariat's review of human resource policies and other legislation.
- **2.11** The audit covered a five-year period from the 2005–06 to 2009–10 fiscal years. This period allowed us to examine the implementation process since the full enactment of the PSMA in 2005.
- **2.12** We carried out our audit in the organizations that have specific responsibilities under the PSMA, and in six selected departments and agencies. We also had meetings and discussions with other

stakeholders in the federal public administration, such as bargaining agents and various human resource networks.

2.13 More details about the audit objectives, scope, approach, and criteria are in About the Audit at the end of this chapter.

#### Exhibit 2.1 Key areas related to the Public Service Modernization Act

#### **Privy Council Office**

► Annual report to the Prime Minister on the Public Service of Canada

#### Senior Advisor to the Privy Council Office on the legislative review of the Public Service Modernization Act

► Lead for the five-year legislative review of the *Public* Service Employment Act and of the Public Service Labour Relations Act

#### Treasury Board of Canada Secretariat (including the Chief Human Resources Officer)

- ► Annual reports by the President to Parliament on human resource management responsibilities required by the Financial Administration Act and on responsibilities under the Public Service Employment Act
- ► Implementation of the PSMA
- ► Labour relations
- Human resource requirements, policies, and planning

#### **Public Service Staffing Tribunal**

- Recourse on staffing disputes
- ► Annual report to Parliament

#### Public Service Commission

- ► Integrity of staffing
- Audits, investigations, and studies
- ► Annual report to Parliament
- Delegation of authorities to deputy heads

#### Deputy heads

- ▶ Direct authorities from the Financial Administration Act
  - People management
    - Establishing learning and training and development needs
    - Providing awards
    - Setting standards of discipline
    - Terminating or demoting of persons
    - Developing leadership
- Delegated staffing authorities from the Public Service Commission

#### Public Service Labour Relations Board

- Administration of the collective bargaining and grievance adjudication system
- Compensation analysis and research
- Mediation services
- Annual report to Parliament

#### Canada School of Public Service

- Delivery of common learning and training and development for all public servants
- Annual report

Note: In this document, we use "central human resource agencies" as a generic term for ease of reading. We recognize that the entities noted above have different mandates and status as well as many more roles and responsibilities that were outside the scope of the audit.

Source: Adapted from the 2005 February Status Report of the Auditor General, Chapter 3, and the Public Service Modernization Act.

#### **Observations and Recommendations**

## Implementing the legislative changes

#### The legislation has been implemented as required

- 2.14 The Public Service Modernization Act (PSMA) sets out a number of legislative changes that were expected to clarify responsibilities for human resource management, enhance collaboration between labour and management, streamline staffing processes, and improve training and development for government employees. All of these are essential for the government to be able to manage its human resources effectively.
- 2.15 We expected key legislative changes to have been implemented. Some of these changes are mandatory while others are optional and thus provide additional flexibility in managing human resources. We also expected that central human resource agencies and deputy heads would have exercised their responsibilities as defined in the legislation. Accordingly, we examined whether the new requirements have been implemented and looked at the changes to roles and responsibilities. We did not audit the effectiveness of any of these changes, but we did examine compliance with requirements to report to Parliament and the information that was reported.
- **2.16** New changes and approaches. We found that the legislative changes we looked at have been implemented. New options provided for in the legislation in the areas of labour relations and staffing are available to all organizations subject to the *Public Service Employment Act* and the *Public Service Labour Relations Act* (PSLRA).
- **2.17** For example, in the area of labour relations, we found that the consultative committees that deal with resolving workplace issues have been established as required. In addition, we found that departments have established the required mechanisms to resolve conflicts informally.
- 2.18 Several entities have used co-development of internal policies and initiatives and one department has engaged in two-tier bargaining. In accordance with the legislation, negotiations of the new permanent essential services agreements have begun, and in some cases, agreements have been reached to ensure that essential services are maintained in the event of a strike.
- **2.19** In the area of staffing, we found that the new approach to merit-based appointments has been applied to streamline the process and make it more flexible. This new approach represents a significant

**Co-development** — Consultation on workplace issues and identification of workplace problems and development and analysis of solutions with a view to adopting mutually agreed-to solutions.

Two-tier bargaining—Bargaining that sets the broad parameters for terms and conditions of employment in a bargaining unit, while permitting precise details to be negotiated in departments, if the employer, bargaining agent, and deputy head jointly agree

Merit-based appointment—Selection of the applicant who meets all essential qualifications, any additional qualifications, as well as any operational requirements of the organization and is thus considered the "right fit" for the position

- change in culture. The decision to select a candidate has moved from choosing the highest-ranking candidate to choosing one who meets the essential qualifications, taking into account any additional qualifications, operational requirements, and organizational needs.
- We also found that departments and agencies are using the new staffing options, such as additional qualifications for candidates and selection and appointment approaches related to pre-qualified pools of candidates, to meet their organizational needs. They have also put in place the new mechanism, called informal discussions, which encourages discussion and resolution, throughout the appointment process, of concerns of employees who have been eliminated from the process.
- 2.21 In the area of training and development, a more integrated training approach has been implemented. Common training and development has been consolidated into one single organization, the Canada School of Public Service, and is now offered to all public servants.
- 2.22 In some areas, such as appointment processes and learning, central guidance, policies, and regulations have been developed to assist deputy heads in exercising their delegated responsibilities. We also found that some entities have implemented guidance and direction tailored to meet their unique organizational needs.
- 2.23 Roles and responsibilities of central human resource agencies. In 2005, we reported that, for the most part, the roles and responsibilities for human resource management had been clarified in the legislation. We found that central human resource agencies have exercised their new and revised responsibilities as listed in Exhibit 2.1.
- The Treasury Board of Canada Secretariat has developed guidance and regulations to assist deputy heads in carrying out their human resource management responsibilities and to ensure consistency across the public service.
- The Public Service Commission, through its enhanced oversight role and authority, has implemented a new oversight framework to monitor staffing in departments and agencies. It has also conducted audits, studies, and investigations of internal and external appointments, allegations of fraud in the appointment process, and improper political activities on the part of public servants. This oversight role is important for ensuring that the public service of Canada remains non-partisan and that appointments are merit-based.

- 2.26 Formerly known as the Public Service Staff Relations Board, the Public Service Labour Relations Board (PSLRB) has adapted its procedures and practices to meet its new legislative responsibilities and has been called upon to resolve a number of bargaining disputes and workplace issues. While the Board provides formal adjudication services, the majority of complaints are now being resolved through mediation. The Board has also established a compensation analysis and research function as required by the PSLRA.
- 2.27 The Public Service Staffing Tribunal was created to provide a more effective recourse mechanism for internal staffing complaints in the public service. The Tribunal has adjudicated various complaints related to lay-offs, revocation of appointments, and allegations of abuse of authority, and it has ordered corrective actions in some cases. The Tribunal has placed additional emphasis on resolving staffing complaints as informally as possible by settling a majority of cases without a hearing.
- 2.28 The Canada School of Public Service was established to improve common training and development opportunities for public servants. It has done this by developing integrated training and development programs. It also helps deputy heads identify training and development needs in their organizations and provides services to meet these needs.
- **2.29** Roles and responsibilities of deputy heads. We found that deputy heads have also exercised their new and revised responsibilities. In line with the principles and requirements outlined in the various components of the *Public Service Modernization Act*, deputy heads were given primary responsibilities for human resource management to provide them with more flexibility to meet operational needs (Exhibit 2.1).
- 2.30 We also found that in addition to having direct responsibilities for determining training needs, granting awards, and setting standards of discipline, deputy heads had been delegated additional responsibilities from the Treasury Board of Canada Secretariat, such as the authority to engage in two-tier bargaining and co-development and the responsibility to establish consultative committees and systems to resolve conflicts informally. They also received expanded delegated authorities from the Public Service Commission, such as for staffing all executive positions. In addition, they may sub-delegate their staffing authority to department managers to the lowest level they deem appropriate.

#### Some difficulties in the legislation's application have been encountered

- 2.31 Although the new legislation has been implemented, we found some difficulties with its application.
- 2.32 For example, the Compensation Analysis and Research function of the Public Service Labour Relations Board was established and two reports on compensation studies were produced. The Board, however, raised concerns about the lack of stable annual funding for the first few years of operations. In particular, it noted how the lack of funding has hampered its internal capacity and its ability to conduct compensation surveys and data collection. The lack of stable funding has also contributed to the loss of collaborative opportunities.
- 2.33 We also found that the Advisory Board on Compensation Analysis and Research, which was established to provide advice to the Chairperson of the PSLRB, only operated from January 2006 to December 2007. While the legislation allows for positions to be remunerated through an order-in-council, the government has not yet acted on this provision. At this time, positions remain unfilled.
- 2.34 Some bargaining agents told us that they were unable to participate as much as they anticipated in labour management consultative committees due to the lack of representatives to sit on all of the departmental committees that have been created. Further, they stated that the intent of the committees is not always clearly understood. These factors limit the participation of bargaining agents and risk reducing the effectiveness of labour management consultations.
- 2.35 We also found that a two-tier bargaining pilot was carried out successfully in one organization, but logistical challenges make the concept difficult to apply in most parts of the public service. Bargaining agents told us that two-tier bargaining can be effective for negotiating issues related to groups of employees with similar working conditions; however, most occupational groups in the public service are dispersed across departments and agencies with differing working conditions.
- **2.36** In addition, the new approach to merit-based appointments is used in staffing processes, but some managers we met with had difficulty understanding how to apply it because of the significant change in selecting candidates. They informed us that cultural change, following the introduction of the PSMA, has been slow.
- **2.37** The new staffing options, such as pre-qualified pools and advertised and non-advertised processes, are also being used but to a varying degree across organizations we audited. Some managers

informed us that use of the options has been limited due to the additional workload required and a lack of consistent human resource services support. In some cases, managers told us that there is a reluctance to use some of the options. In particular, the Public Service Commission has reported on how some departments have used non-advertised appointment processes. The Commission prefers processes to be advertised as they are a better reflection of the values of access and transparency. As such, the Commission expects to see advertised processes as the standard practice.

2.38 Some managers raised concerns that the staffing process had not yet been streamlined. Many felt that the time taken to staff positions had not improved. The Public Service Commission began reporting on this issue in 2006. In its 2008–09 Annual Report, the Commission found that it took an average of 23.5 weeks to staff a position compared with 22.8 weeks before the PSMA was implemented.

## The government has made organizational changes in an effort to address concerns about roles and responsibilities

- **2.39** In 2003, the government created the Public Service Human Resources Management Agency of Canada (PSHRMAC) to oversee the implementation of the PSMA. This Agency was also charged with sharing the Treasury Board of Canada Secretariat's responsibilities for human resource management functions.
- **2.40** In our 2005 report, we noted a concern about this division of responsibilities and recommended that the Secretariat and the PSHRMAC clarify how they would integrate and coordinate their activities.
- 2.41 Since then, several stakeholders, including the President of the Treasury Board, the Clerk of the Privy Council, and the Prime Minister's Advisory Committee on the Public Service, have continued to express concerns about governance of human resource management. These concerns include the fragmented roles and responsibilities and the duplication of effort. During our audit, some deputy heads and other stakeholders also indicated that these concerns continue.
- 2.42 In an effort to address these concerns, to streamline the management of human resources, and to further reinforce the primary role of deputy heads in managing human resources, the government created the Office of the Chief Human Resources Officer (OCHRO) within the Treasury Board of Canada Secretariat in early 2009. The Office assumed the human resource responsibilities of the Secretariat and of the disbanded agency (PSHRMAC).

- 2.43 Given these significant changes, we expected that the roles and responsibilities of OCHRO would have been defined and communicated.
- The mandate of OCHRO was broadly outlined as representing the government as the "employer" in human resource issues and providing strategic leadership on human resource management (HRM). As such, the Office is expected to develop performance measurement tools with clear indicators and to analyze basic HRM data. Our discussions with OCHRO indicate that it continues to refine its role and responsibilities and that it has undertaken to meet with deputy heads and other stakeholders to obtain feedback and discuss HRM issues.
- 2.45 Deputy heads we met with told us that they support these changes but noted the need to reinforce them. They would like to see stability in the roles, responsibilities, and organizational structure of human resource management.
- 2.46 Overall, we are satisfied that the legislative requirements have been implemented and that new roles and responsibilities have been exercised. However, the challenges noted relative to application of the requirements and the additional changes to roles and responsibilities indicate that human resource management is still in transition and that further action is needed to address these challenges.

#### Assessing and reporting on progress of the reforms

#### Reports have limited information on achievements

- 2.47 In 2005, we noted the importance of reporting on the progress made in meeting the expectations of the legislation and made a recommendation to that effect. Reporting is necessary not only to comply with the legislative requirements but also to provide information to ensure monitoring and oversight of the transformation process. Reporting on achievements should enable Parliament to assess and influence the nature and pace of change, and ensure that change is in line with the objectives of the legislation. In our view, reporting on progress is also needed to support the legislative review process as discussed in the next section (page 15).
- 2.48 We expected that the Public Service Commission and the President of the Treasury Board would have reported on progress of the implementation and interim achievements of the legislation, as they committed to do in response to our 2005 recommendation.
- 2.49 Our examination of the reports indicates that initial reporting was focused mainly on the activities carried out to implement the legislative requirements. Following initial reporting, we found only

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certain reporting on whether the changes to the human resource management regime were achieving the expected results.

- **2.50** Building on its oversight role and various measurement tools (for example, studies and surveys), the Public Service Commission has assessed the performance of delegated departments and agencies to report to Parliament on the integrity of the staffing regime and on progress made on implementing the *Public Service Employment Act* (PSEA).
- 2.51 The Public Service Commission has also reported on some of the outcomes that resulted from the change in the staffing regime under the *Public Service Employment Act*. For instance, in its 2008–09 Annual Report, the Commission indicated that while the new merit-based approach to staffing was generally respected, some trends that have been identified since 2005 are of concern. In other reports, it also raised concerns about the impact of the PSEA on the staffing regime, such as the time taken to staff positions, and about challenges in implementing the changes in the legislation. In addition, the Commission recognized that there are weaknesses in the quality and integrity of the data it collects from departments and agencies.
- **2.52** While the legislation does not require reporting on the achievements of the objectives of the legislation, in 2005 the Treasury Board of Canada Secretariat and the former Public Service Human Resources Management Agency of Canada committed to developing indicators, measures, and data sources to enable them to determine progress.
- 2.53 The reports prepared by the Secretariat lack sufficiently complete information on the interim achievements of the legislation and do not provide Parliament with important information to allow it to play its oversight role. For example, the indicators and information used have limitations, which make it difficult to identify and report on whether the results meet the objectives of the legislation.
- 2.54 Furthermore, the Secretariat has changed its measurement indicators from year to year to respond to the changing context. As a result, the links with the expectations of the PSMA and the changes resulting from the Act were difficult to make. More specifically, we did not find any indicators that assess the overall state of labour-management relations, the effectiveness of the new recourse mechanisms in dealing with labour relations issues, and the links between human resource planning and staffing. The Secretariat is therefore limited in its capacity to identify trends and evaluate the impact of the changes.

2.55 The lack of appropriate indicators and their limitations could hinder the Secretariat's ability to provide meaningful information and data on progress for the five-year legislative review.

#### Organizations have reported annually to Parliament

- 2.56 Legislation requires annual reporting to Parliament on human resource management matters. We expected that the President of the Treasury Board of Canada, as well as the Public Service Commission, the Public Service Labour Relations Board, and the Public Service Staffing Tribunal would have tabled a report annually to Parliament.
- 2.57 Our examination of the various reports of these central human resource agencies shows that the agencies have complied with the requirements of the legislation and submitted annual reports to Parliament regarding their activities.
- 2.58 The President of the Treasury Board's annual reports describe accountabilities for human resource management and the progress in implementing the changes resulting from the *Public Service Modernization Act* (PSMA). They also include information on a broader range of human resource responsibilities, such as employment equity, learning and training, and values and ethics, as well as analysis of the current human resource environment.
- 2.59 However, the Treasury Board of Canada Secretariat has been slow in releasing the annual reports. The *Financial Administration Act* and the *Public Service Employment Act* require an annual report to be tabled by the President as "soon as possible after the end of each fiscal year." We found that the annual reports for the 2005–06 and 2006–07 fiscal years were tabled two years following the end of the respective fiscal year they covered. The 2007–08 annual report is expected to be tabled in 2010.
- **2.60** Recommendation. To improve its reporting to Parliament and support the legislative review, the Treasury Board of Canada Secretariat should ensure that it provides more timely information to Parliament and that it reports on whether the changes to human resource management have achieved the results intended by the legislation.

The Treasury Board of Canada Secretariat's response. Agreed. The Treasury Board of Canada Secretariat will improve its reporting to Parliament and support the Legislative Review by providing more timely information. This will be accomplished by providing information to the Review Team to support the Legislative Review in 2010–11, with respect to the *Public Service Labour Relations Act* and

the *Public Service Employment Act*, and by reporting to Parliament through Official Languages, Employment Equity, and Human Resources Modernization reports. Changes to human resource management will be measured by the Secretariat through the final Strategic Investment Framework evaluation report in 2010 and as part of the Management Accountability Framework process.

## Preparing for the legislative review

#### Preparation for the legislative review has begun

- 2.61 The Public Service Labour Relations Act (PSLRA) and the Public Service Employment Act (PSEA) require that the designated minister ensure that the administration and operation of these acts are reviewed five years after the acts come into force. Accordingly, the PSLRA review must be initiated in April 2010 and the PSEA review in December 2010. These reviews provide an important opportunity for Parliament to assess the impact of the new legislation and, if necessary, to make amendments or improvements to the legislation.
- 2.62 The legislative review is a key component of the human resource management accountability and monitoring process. It is intended to determine, within a reasonable period of time, whether the changes are working well, and to provide the opportunity to identify any necessary adjustments. It should allow Parliament to assess the impact of the legislation and to propose any changes or improvements.
- 2.63 As we stated in our 2005 report, the need for sustained momentum on reforms depends in part on measuring progress against expectations. We expected the central human resource agencies with responsibilities under both acts would have begun to prepare for the review and that these preparations would include being able to report on whether the changes are meeting the expectations of the legislation.
- 2.64 The government has designated responsibility for the review of both the PSLRA and the PSEA to the President of the Treasury Board. In July 2009, the government appointed a senior advisor to lead the review. Headed by the senior advisor, the PSMA Legislative Review Team was established to coordinate and integrate the activities of the Treasury Board of Canada Secretariat and central human resource agencies.
- **2.65** Since neither the PSLRA nor the PSEA provide any direction for the conduct of the review, and there was no guidance on how such a review was to be conducted, we expected that a plan would have been developed, including the objective, requirements, scope, approach, and roles and responsibilities. The responsibility for

developing such a plan was assigned to the PSMA Legislative Review Team when it was established.

- 2.66 At the time of our audit, the Review Team was developing a set of working principles, defining the governance structure, identifying and analyzing risks, and developing an approach and methodology to conduct the review. It was also identifying the deliverables and developing a strategy for the participation of all the organizations that have a role to play in human resource management.
- 2.67 In addition, the Review Team was establishing the issues that the review would address. These issues include determining whether the legislation is meeting its intent and its current and evolving needs, and determining what elements are working and what adjustments are needed. The Review Team's objective is to complete and report on the review by late 2010 or early 2011.
- 2.68 The Public Service Commission has developed and implemented a strategy to assess the *Public Service Employment Act*. It plans to use the results of this assessment as the foundation of its contribution to the legislative review of the PSEA. In this strategy, the Commission has defined its roles and responsibilities, and has outlined its objectives, proposed approach, and guiding principles. This strategy includes an evaluation plan to assess progress made on the staffing regime and builds on the Commission's existing measurement system. As part of the review strategy, the Commission is completing a review of its appointment policy framework and the model in place for delivering its staffing services to departments and agencies. The strategy will also focus on assessing how the changes implemented have contributed to achieving the expected results of the legislation.

## The Review Team may lack sufficient information for results to be assessed and reported

- 2.69 Although a structure is being developed to manage the review, and objectives are being defined, we are concerned that the review process might not be able to provide Parliament with all the information required to determine whether the changes since 2005 are achieving the expected results of the legislation.
- **2.70** The review of the legislative changes needs to determine whether they are achieving the intended results. So far, little information is available, for instance, on the impact of the changes on collaborative labour relations and on a more flexible and streamlined staffing system.

- 2.71 Information for the review of the PSLRA and for the PSEA will come from a variety of sources, including information to be provided by the Treasury Board of Canada Secretariat. As noted in paragraphs 2.53 to 2.55, we are concerned about the lack of indicators and their limitations. Consequently, the Review Team may not have enough information to assess the changes resulting from implementation of the legislation and report on whether they have met the expectations of the PSEA and PSLRA.
- **2.72 Recommendation.** The PSMA Legislative Review Team should ensure that information provided to support the legislative review will allow the report by the President of the Treasury Board to provide meaningful information to Parliament on the extent to which the expectations of the *Public Service Labour Relations Act* and the *Public Service Employment Act* have been met and to propose any changes, including improvements.

The PSMA Legislative Review Team's response. Agreed. The Review Team accepts the advice set out in the recommendation and, as the legislation requires, will examine the acts and their administration and operation. The Review Team will use a variety of sources and types of information, but notes that it is premature to comment on the conclusions of its work, which will be completed at least a year hence. The Review Team acknowledges that it would be logical and appropriate for the report, which is to be tabled by the President of the Treasury Board in Parliament, to comment on whether expectations for the legislation have been met.

#### Conclusion

- **2.73** The implementation of the *Public Service Modernization Act* (PSMA) is a complex undertaking bringing into play four different acts and a number of stakeholders. We are satisfied that the central human resource agencies and selected entities have implemented the new requirements of the PSMA and that the new and revised structures and processes have also been put in place.
- 2.74 Central human resource agencies have exercised their responsibilities as outlined in the legislation. Human resource management responsibilities have been transferred from central agencies and human resource professionals to deputy heads and line managers respectively, in accordance with the legislation. In an effort to address remaining concerns about clarity of roles and responsibilities, the government changed the existing governance structure for human

resources by creating a new agency responsible for all human resource management matters in the public service.

- 2.75 There have been difficulties encountered in applying some aspects of the legislation, including the application of some of the new tools, which has resulted in some elements of the legislation not yet functioning to the degree envisioned.
- 2.76 Central human resource agencies have met the legislative requirements to report to Parliament. While the agencies have reported on progress of the implementation process, the reports we examined contained only certain information on the impact and the expected achievements of the legislation. We also found some limitations that could hinder reporting on whether the results meet the objectives of the legislation. In our view, information on outcomes is critical to monitor progress and support the upcoming legislative review.
- 2.77 The preparation for the legislative review is under way. The President of the Treasury Board has been designated responsible for the review, and the PSMA Legislative Review Team has been established to lead and coordinate the review. While some work has begun to prepare for the review, the limitations of some of the information need to be addressed to ensure that all aspects of the legislation are taken into account and assessed in order to provide complete information for the review.
- 2.78 Our examination of implementation of the PSMA shows that progress has been made, but it is still a process in transition. Although the legislation has been implemented, the government needs to continue to manage the challenges, monitor progress, and ensure that the expected results are realized.

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#### About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

#### **Objectives**

The objectives of the audit were to determine whether

- the lead agencies and selected departments have implemented the new requirements of the *Public Service Modernization Act* (PSMA), including reporting;
- · the objective and requirements for the legislative review have been established; and
- · new roles and responsibilities have been carried out.

#### Scope and approach

We examined whether the new requirements of the PSMA have been implemented. We looked at whether the role and responsibilities of the new Office of the Chief Human Resources Officer were being defined. We also looked at reporting on progress of modernization, and at preparation for the five-year legislative review of the staffing and labour relations components called for in the legislation.

Our work consisted of review of documentation and interviews in the six organizations with direct responsibilities under the PSMA: the Privy Council Office, the Treasury Board of Canada Secretariat (including the Office of the Chief Human Resources Officer), the Public Service Commission, the Canada School of Public Service, the Public Service Labour Relations Board, and the Public Service Staffing Tribunal. We also met with officials of six selected entities and held structured interviews with a sample of deputy heads.

We selected the following six entities for examination: the Canadian Human Rights Commission, Environment Canada, Human Resources and Skills Development Canada, Industry Canada, Justice Canada, and Veterans Affairs Canada. The selection of entities was based on various factors, such as size of the organization, staffing volumes, and audit coverage. We also broadened the audit coverage to include interviews and document review with other stakeholders in the federal public administration, such as home name idents, the Association of Professional Executives in the Public Service of Canada, the Human Resources Council, and regional federal councils. All entities covered by the audit attested to the accuracy of the information they provided.

We did not examine the impact of the various provisions of the new legislation, nor did we look at the non-legislative changes, such as human resource planning and classification reform. We also did not examine the collective bargaining process, the bargaining agent certification process, or the elements that existed before the PSMA.

#### Period covered by the audit

The audit covered the 2005-06 to 2009-10 fiscal years. This period was chosen to allow us to include all the work done by entities with responsibilities under the PSMA since the Act came fully into force in December 2005. The 2009-10 fiscal year was included as it allowed us to review reports on plans and priorities tabled in Parliament for that period. It also enabled us to take into account the work of the Office of the Chief Human Resources Officer, which was created in March 2009.

Audit work for this chapter was substantially completed on 30 September 2009.

#### Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources		
We expected the lead agencies and selected departments to have implemented the new requirements of the <i>Public Service Modernization Act</i> (PSMA).	Relevant sections of the PSMA		
We expected the lead agencies to have issued reports as required by the PSMA.	Reporting requirements under the following pieces of legislation: Public Service Employment Act (PSEA), sections 23, 28, 110, 127; Public Service Labour Relations Act (PSLRA), section 251; Canada School of Public Service Act (CSPSA), section 19; and Financial Administration Act (FAA), section 12.4		
	2005 February Status Report of the Auditor General— Chapter 3, Modernization of Human Resources Management Managing the reforms, follow-up of recommendation 3.79		
We expected the lead agencies to have performance measurement systems in place to report progress made on the modernization of human resource management.	2005 February Status Report of the Auditor General— Chapter 3, Modernization of Human Resources Management Managing the Reforms, follow-up of recommendation 3.79		
	Performance Reporting Good Practices Handbook, Treasury Board of Canada Secretariat, 2008		
	Preamble of the PSEA and the PSLRA		
We expected the objective and requirements for the legislative	PSEA, section 136		
review to have been established.	PSLRA, section 252		
We expected the lead agencies to be preparing for the legislative review.	Quail Task Force on Modernizing Human Resources     Management in the Public Service, PSEA clause-by-clause     briefing (Tab 8), February 2003		
	Policy on Evaluation, Treasury Board, 2009		
	Working paper on main legislative changes for PSEA and PSLRA, Office of the Auditor General		
	Speech from the Treasury Board President on the PSMA, second reading, February 2003		
	PSLRA, clause-by-clause briefing, February 2003		
	Preamble of the PSEA and the PSLRA		
	2005 February Status Report of the Auditor General, Chapter 3, Modernization of Human Resources Management Managing the Reforms, follow-up of recommendation 3.79		

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Criteria	Sources		
We expected the revised roles and responsibilities for human	PSMA and related acts (PSEA, PSLRA, FAA, CSPSA)		
resource management resulting from the PSMA to have been implemented.	<ul> <li>2005 February Status Report of the Auditor General, Chapter 3, Modernization of Human Resources Management: Managing the Reforms, follow-up of recommendation 3.73</li> </ul>		
	13th Annual Report to the Prime Minister on the Public Service of Canada		
	<ul> <li>Human Resources Management in the Public Service of Canada: Annual Report to Parliament, 2005–2006, Canada Public Service Agency and Treasury Board of Canada Secretariat</li> </ul>		
	Deputy heads' responsibilities as per the Clerk's priorities		
We expected the roles and responsibilities of the Office of the Chief Human Resources Officer and the new responsibilities given to deputy heads to be defined and communicated.	Backgrounder (Press Release): Human Resources Governance, Treasury Board of Canada Secretariat, 2 December 2009		
	<ul> <li>Accountability Audit Guide, pages 9 and 15, Office of the Auditor General</li> </ul>		

Management reviewed and accepted the suitability of the criteria used in the audit.

#### Audit team

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#### **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation Response

#### Assessing and reporting on progress of the reforms

2.60 To improve its reporting to Parliament and support the legislative review, the Treasury Board of Canada Secretariat should ensure that it provides more timely information to Parliament and that it reports on whether the changes to human resource management have achieved the results intended by the legislation. (2.56–2.59)

Agreed. The Treasury Board of Canada Secretariat will improve its reporting to Parliament and support the Legislative Review by providing more timely information. This will be accomplished by providing information to the Review Team to support the Legislative Review in 2010–11, with respect to the *Public Service Labour Relations Act* and the *Public Service Employment Act*, and by reporting to Parliament through Official Languages, Employment Equity, and Human Resources Modernization reports. Changes to human resource management will be measured by the Secretariat through the final Strategic Investment Framework evaluation report in 2010 and as part of the Management Accountability Framework process.

#### Preparing for the legislative review

2.72 The PSMA Legislative Review Team should ensure that information provided to support the legislative review will allow the report by the President of the Treasury Board to provide meaningful information to Parliament on the extent to which the expectations of the Public Service Labour Relations Act and the Public Service Employment Act have been met and to propose any changes, including improvements.

(2.69 - 2.71)

Agreed. The Review Team accepts the advice set out in the recommendation and, as the legislation requires, will examine the acts and their administration and operation. The Review Team will use a variety of sources and types of information, but notes that it is premature to comment on the conclusions of its work, which will be completed at least a year hence. The Review Team acknowledges that it would be logical and appropriate for the report, which is to be tabled by the President of the Treasury Board in Parliament, to comment on whether expectations for the legislation have been met.

# Report of the Auditor General of Canada to the House of Commons—Spring 2010

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Chapter 6	Special Examinations of Crown Corporations—2009

Message from the Auditor General of Canada







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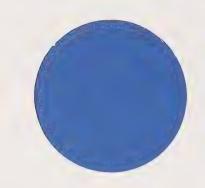
Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

**Chapter 3**Rehabilitating the Parliament Buildings



Office of the Auditor General of Canada



# 2010



Report of the

# Auditor General of Canada

to the House of Commons

**SPRING** 

**Chapter 3**Rehabilitating the Parliament Buildings





Office of the Auditor General of Canada

The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

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Ce document est également publié en français.

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## Chapter

3

Rehabilitating the Parliament Buildings

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## Rehabilitating the Parliament Buildings

#### **Main Points**

#### What we examined

For over two decades, it has been recognized that the main buildings on Parliament Hill—the Centre, West, and East blocks, the Library of Parliament, the Confederation Building, and the Justice Building—are in need of major repairs and upgrading. Their rehabilitation has been a long-standing objective of their custodian, Public Works and Government Services Canada (PWGSC), and of the Senate, the House of Commons, and the Library of Parliament, the parliamentary partners who occupy the buildings. In 2007 the government approved an updated Long-Term Vision and Plan, notably for carrying out the necessary work and providing additional facilities within a clearly defined secure area north of Wellington Street to meet Parliament's current and future requirements.

The Long-Term Vision and Plan is to be carried out through a series of five-year programs, each of which includes primary projects to restore the key heritage buildings, urgent building interventions to ensure the ongoing viability of buildings and to address health and safety issues, and the planning activities to develop the next five-year program.

While PWGSC is responsible for the day-to-day management of the buildings and for planning and carrying out projects for their rehabilitation and long-term care, and the parliamentary partners control their premises, other entities also have responsibilities for the Parliament buildings. These include Parks Canada Agency, the National Capital Commission, and the RCMP.

We examined how PWGSC is managing the rehabilitation of the Parliament buildings. We also looked at what arrangements are in place between PWGSC and the parties involved to govern the implementation of the Long-Term Vision and Plan.

Audit work for this chapter was substantially completed on 30 October 2009.

#### Why it's important

The buildings on Parliament Hill are the focal point of Canadian political life. They were intended from the outset to convey the symbolic and ceremonial aspects of Parliament. Over time, the

buildings and the site have become a visual symbol of Canada's parliamentary democracy. The historical importance of some of the parliamentary buildings (and grounds) was formally recognized in 1976, when they were designated by the Minister of the Environment as a National Historic Site, and in 1987, when the Minister designated them as "classified heritage buildings," the highest-level designation.

PWGSC faces the critical challenge of modernizing the buildings to meet the needs of the occupants and providing new facilities that respect the heritage value of Parliament Hill while meeting the requirements of Parliament.

#### What we found

- Through its assessment of building conditions, PWGSC has identified serious risks that could affect the continued operations of Parliament. Furthermore, the heritage character of some of the buildings is threatened and the health and safety of occupants could be at risk. The Senate and the House of Commons have indicated that their present and future needs cannot be met by the buildings in their present state.
- The governance framework in place is inadequate to guide the overall rehabilitation of the Parliament buildings. In particular, decision making and accountability are fragmented, and the framework does not allow for reaching consensus on priorities and committing resources to implement long-term plans. These weaknesses, which cannot be attributed to any organization alone, result in delays in making decisions and implementing projects, and contribute to increasing project costs and risks.
- The rehabilitation projects on Parliament Hill are unique and complex. Once rehabilitation projects are supported by all parties, PWGSC has in place generally sound project management practices. These practices take into account the heritage character of the buildings, their age and condition, the needs of their users, and the protection of the environment. The Department has also developed costing estimates methodology that takes into account the risks that rehabilitation projects are facing and it updates this information regularly. Despite the project management practices in place, setting priorities and satisfying client requirements will remain difficult until the governance framework is addressed.

The Department has responded. The Department agrees with the recommendation. Its detailed response follows the recommendation in the chapter.

#### Introduction

- 3.1 The Parliament buildings are the centrepiece of our national political life. The site, the architectural style, and the building layout were designed to convey an image of ceremony and order. With time, the buildings and the grounds have become a symbol of Canada's parliamentary democracy and the federal government.
- **3.2** Centre Block, the main building, was built to provide a facility for Parliament's core functions. It is in this building that the bulk of the legislative work takes place and national issues are debated. On the grounds facing the building, people gather to voice their opinions and concerns and to celebrate Canada Day and other major events. These grounds serve as Canada's town square.
- 3.3 The historical importance of some of the Parliament buildings was formally recognized in 1976, when they were designated by the Minister of the Environment as a National Historic Site, and in 1987, when the Minister designated some of them as "classified heritage buildings," the highest-level designation. Exhibit 3.1 provides a short description of the classified buildings.
- 3.4 Canadians are attached to the Parliament buildings. Surveys found that they see them as symbols of Canada's history and tradition, and of democracy and freedom. Like official residences, the buildings are part of Canada's heritage and belong to all Canadians.

  Over 1 million people visit the buildings and site every year.

#### Parliament Hill

3.5 The Parliament of Canada Act defines the expression "Parliament Hill" as an area of ground in the City of Ottawa bounded by Wellington Street, the Rideau Canal, the Ottawa River, and Kent Street. For the purpose of project planning, a geographic definition is seen as important for facilitating the concentration of parliamentary activities, for preserving Parliament's clear and distinct identity, and for security reasons. Exhibit 3.2 shows the physical boundaries and the key buildings of Parliament Hill.

Exhibit 3.1 The Parliament Buildings have been designated as heritage buildings, which means their heritage character needs to be protected



#### Centre Block

Built between 1916 and 1927, it replaced the original building destroyed by fire in 1916. It has been designated "Classified" because of its exceptional significance as a national landmark. Its heritage character is embodied in the whole of its exterior, including the Peace Tower, its many public interiors and ceremonial spaces, and its symbolic and practical functions as the seat of government.



#### Library of Parliament

Built between 1859 and 1876, the Library was designated "Classified" because it is a national symbol of outstanding architectural and artistic merit. It continues to serve its historical function in support of the operation of the Parliament of Canada.



#### East Block

Built between 1859 and 1865, East Block was designated "Classified" because of its exceptional importance in terms of historical associations, architectural quality, and environmental impact. The heritage character of the building lies in its picturesque setting, ornamentation, and use of texture and colour. A new wing was added in 1910.

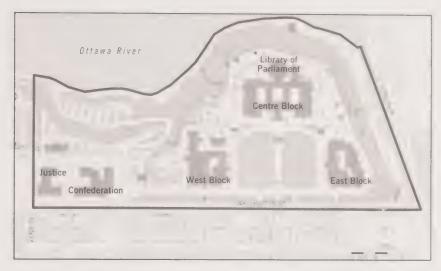


#### West Block

Built between 1859 and 1865, West Block was designated "Classified" because of its exceptional importance in terms of historical associations, architectural quality, and environmental impact. The heritage character of the building resides in its picturesque setting and ornamentation and in portions of the interior plans, features, and finishes. New wings were completed in 1878 and 1909.

Source: Public Works and Government Services Canada (pictures) and Parks Canada Agency (adapted text)

Exhibit 3.2 Boundaries and buildings of Parliament Hill



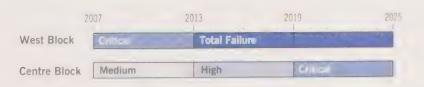
Source: Public Works and Government Services Canada



Centre Block—Water infiltration has caused rust from structural steel to permanently stain stone interior finishes in some areas, including chambers and ceremonial spaces.

Parliament have been in need of major repair for some time. Public Works and Government Services Canada (PWGSC) documents indicate that many key building systems of the West Block are at critical risk of "total failure" while key systems in the Centre Block could reach that stage within the decade. Key systems include such operational systems as heating, cooling, and electrical. Exhibit 3.3 illustrates this growing risk. If a system in these buildings were to fail, this could force their closure for an extended period of time while urgent repairs are carried out. In the meantime, Parliament might not be able to operate or might have to limit its operations. Other buildings exhibit varying degrees of deterioration, but current problems are considered less pervasive and potential consequences less dramatic. Further, there are signs of erosion of the heritage character of many buildings.

Exhibit 3.3 The risk of total failure of key building systems in West Block and Centre Block is growing



Source: Public Works and Government Services Canada

Rehabilitation—The action or process of making possible a continuing or compatible contemporary use of a historic place or an individual component through repair, alterations, and/or additions while protecting its heritage

**Parliamentary partners**—The Senate, House of Commons, and the Library of Parliament.



Centre Block—Permanently damaged sandstone cornices and carved elements of the historic structure need to be rebuilt.

- 3.7 Studies by the Senate and the House of Commons have concluded that the current buildings do not meet their present and future needs. For example, the Senate found that the space allocated to committee rooms and senators' offices was inadequate and did not meet its standards. The House of Commons indicated a need to build a new facility to house committee rooms that meet its standards. It also identified a need for additional space for members' offices. Both houses articulated the importance of locating all their core parliamentary functions within a clearly defined secure area north of Wellington Street.
- 3.8 The rehabilitation of the Parliament buildings has been a long-standing objective of PWGSC and the parliamentary partners. Efforts have been made over the last two decades to plan and execute the work required to rehabilitate the buildings and grounds. Recent plans also aim to meet some of the requirements communicated to PWGSC by the Senate and the House of Commons.
- approved an updated Long-Term Vision and Plan to be carried out through a series of five-year programs. Each program includes primary projects to rehabilitate key heritage buildings, urgent building repairs to ensure the ongoing viability of buildings and to address health and safety issues, and planning activities to develop the next five-year program. PWGSC states publicly that the current strategic direction is to renovate the core historic Parliament buildings—the triad of the West Block, Centre Block, and East Block—as the first priority. Since Centre Block cannot be renovated while occupied, its occupants will use the East and West Blocks as interim space. However, these buildings also need rehabilitation work, which will have to be done first. Before this work can take place, however, the functions displaced from the East and West blocks need to be relocated in interim or new accommodation. This process triggers further projects to house those displaced functions.

#### Roles and responsibilities

3.10 No one organization has overall responsibility for the Parliament buildings. This situation was noted in 1985 in the Report of the Special Committee on Reform of the House of Commons (McGrath Report) and by the Nielsen Task Force (1986). In 1992, in the Report to the Senate and the House of Commons on Matters of Joint Interest, we pointed out the challenge of balancing a constitutional principle, that of Parliament's control over its own affairs, and the legal responsibilities of PWGSC as the custodian of the buildings. In our December 1998 report to the House of Commons, we observed that

roles, responsibility, and accountability for actual and planned expenditures totalling hundreds of millions of dollars continued to be complex and unclear. In 2005, PWGSC and the parliamentary partners established a task force to review governance. In its report, A New Approach to Governance of the Parliamentary Precinct, the task force concluded that there are "key flaws" in current governance and, after considering alternative models, made a recommendation for a new governance model.

- 3.11 The governance has not changed. Responsibilities for the Parliament buildings remain spread among numerous entities, and each entity derives its roles from different sources.
- Parliament. Each House of Parliament, being constitutionally independent, is responsible for ensuring that its needs and objectives are established and realized. Under the Parliament of Canada Act, members enjoy "parliamentary privileges, immunities and powers" defined in the Constitution and in the Act. The Act defines the power of both houses to control their premises and the right of Parliament to regulate its own affairs. It also defines the basic decision-making structure of the Senate and the House of Commons on administrative matters and provides for the Library of Parliament.
- 3.13 In the Senate, the Standing Senate Committee on Internal Economy, Budgets and Administration (COIE) is responsible for the Senate internal administration, subject to the rules, direction, and control of the Senate. The Committee is assisted by the Senate Administration, headed by the Clerk of the Senate.
- The Board of Internal Economy (BOIE), over which the Speaker presides, is the governing body of the House of Commons. It acts on all financial and administrative matters respecting the House of Commons, its premises, its services and its staff, and the members of the House of Commons. The Board is assisted by the House of Commons Administration, headed by the Clerk of the House of Commons.
- The Library of Parliament provides information-related services to parliamentarians. The direction and control of the Library is vested jointly in the Speakers of the Senate and the House of Commons, assisted during each session by a joint committee to be appointed by the two houses. The Parliamentary Librarian is responsible for day-to-day management.
- 3.16 The Senate, the House of Commons, and the Library of Parliament are essentially "occupants" in Crown-owned buildings. They define and communicate their respective accommodation needs



West Block—Permanently damaged carved elements of the historic structure need to be rebuilt.

to PWGSC, participate in strategic planning, and endorse rehabilitation projects that affect the Parliament buildings. For individual projects that affect its accommodation, each partner is responsible to actively support PWGSC project planning and implementation activities.

- 3.17 Public Works and Government Services Canada. The Department is the custodian of the Parliament buildings. In addition to day-to-day management of the buildings, it is charged with planning and executing projects related to their rehabilitation and long-term care, in consultation with the parliamentary partners.
- 3.18 In carrying out building rehabilitation projects, the Minister of PWGSC receives advice from the Parliamentary Precinct Oversight Advisory Committee. This Committee is composed of four individuals and a chair, currently a former Speaker of the House of Commons. Its mandate is to provide independent oversight and advice on various matters related to the implementation of the Long-Term Vision and Plan.
- 3.19 PWGSC needs to seek government approval for long-term direction, project scope, and funding. To that end, it presents long-term plans and produces costing estimates. For example, in defining projects for the 2007 long-term plan, which covered buildings, infrastructure, and grounds, PWGSC hired an independent cost consultant in 2006 to estimate the cost of implementing the projects. The firm estimated the total cost of these projects to be approximately \$5 billion over 25 years. However, many project costs were only preliminary estimates because of the lack of information and the high level of uncertainty associated with projects that were decades away.
- 3.20 In 2002, the government approved \$628 million to be used between 2005 and 2009 for projects related to the Parliament buildings. In 2007, about \$520 million was still available. Therefore, when the government approved the long-term direction presented by PWGSC in 2007, it did not approve any additional funding. In 2009, the Department indicated that all funds have been allocated by the Treasury Board. PWGSC requires additional funding before it can undertake major work, notably on the West Block. At the time of the audit, the Department was preparing a funding request to the government.
- **3.21** Other entities. The Minister of the Environment is responsible for the designation of federal heritage buildings and national historic sites across the country. Parks Canada Agency, through the Federal Heritage Buildings Review Office (FHBRO), provides advice to federal

departments that are responsible for heritage buildings, and through the National Historic Sites Directorate, provides advice on National Historic Sites, including those sitting on the Hill. The National Capital Commission is responsible for reviewing and approving changes proposed by departments to buildings in the National Capital Region, including the Parliament buildings. Further, PWGSC delegated to the Commission its responsibility to manage the grounds of the Hill. Finally, the RCMP provides security on the grounds and advises PWGSC and the parliamentary partners on security matters.

#### Other jurisdictions

**3.22** We noted that other countries have different administrative structures to manage their legislative buildings. Exhibit 3.4 shows some examples.

#### Exhibit 3.4 Legislative buildings are controlled by the legislature in some countries

**Australia.** The Department of Parliamentary Services is a department of the Federal Parliament. Included in the Department's responsibilities is the management of Parliament House, the home of Australia's Federal Parliament, where more than 3,500 people work when Parliament is sitting.

The Department is jointly administered by the President of the Senate and the Speaker of the House of Representatives.

**United Kingdom.** In 1992, the UK Parliament passed legislation that transferred custodianship of the Palace of Westminster and other parliamentary buildings from a government department to the House of Lords and the House of Commons.

Organizations were created within the Lords' and the Commons' administrations to handle building maintenance and management as well as new construction. Oversight is exercised by committees or commissions of the House of Lords and the House of Commons.

**United States.** The Office of the Architect of the Capitol (AOC) was established by an act of Congress in 1876 for the maintenance, operation, development, and preservation of buildings and of land throughout the Capitol complex. Included in responsibilities are the House and Senate office buildings, the Capitol, and many other facilities. The AOC also provides professional expertise on the preservation of architectural and artistic elements in its care, and provides recommendations concerning design, construction, and maintenance of the facilities and grounds.

The AOC is part of the Legislative Branch of the government and is responsible to the United States Congress.

#### Focus of the audit

- 3.23 Our audit focused on determining whether
  - PWGSC, within its mandate, and in cooperation with the other involved entities, has put in place a sound governance framework for the overall rehabilitation project; and
  - PWGSC has sound project management practices for the rehabilitation of the Parliament buildings.
- 3.24 The audit covered the governance of the rehabilitation of the Parliament buildings; lessons learned from the conservation, rehabilitation, and upgrade of the Library of Parliament; and planning for the rehabilitation of the West Block.
- 3.25 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

#### **Observations and Recommendation**

#### Governance

- 3.26 In its simplest form, governance refers to high level decision making for the purpose of setting a direction. Typically, governance issues arise when a group of people or organizations needs to make important decisions for a common purpose. Good governance provides an effective decision-making process to define desired results, obtain and manage resources, and establish accountability relationships to achieve the results.
- 3.27 There is a range of approaches to good governance. A governance framework is usually defined in the context of a particular situation. Responsibility for the Parliament buildings is divided among a number of entities, and Public Works and Government Services Canada (PWGSC) has the particular role of custodian of the buildings. Given this situation, we expected that PWGSC, within its mandate, would have reached an agreement in cooperation with the other entities involved in the rehabilitation of the buildings that established a sound governance framework for the overall project. This framework would define desired results and establish accountability relationships to achieve them.
- 3.28 We examined the roles and responsibilities of PWGSC, its relationships with other entities, and how decisions were made. We also examined the long-term plans and formal agreements between PWGSC and the parliamentary partners. Finally, we discussed

governance issues with officials. We found that the governance framework in place is inadequate to guide the rehabilitation of the Parliament buildings. In particular, we found that decision making and accountability are fragmented, and there is a lack of consensus on priorities. Further, there is no funding commitment to implement long-term plans. These gaps in governance contribute to the delays in addressing the continuing deterioration of the Parliament buildings.

#### **Decision making is fragmented**

- 3.29 Under the *Parliament of Canada* Act, the Senate and the House of Commons have jurisdiction over their accommodations and other requirements. They also have rights and powers that enable them to regulate their own affairs. The Treasury Board cannot override the powers of the Senate and the House of Commons in relation to administrative matters, including their premises. PWGSC on the other hand, as a department, is accountable to the Treasury Board.
- 3.30 Under the current arrangements, the Senate and the House of Commons are the decision-making authority on certain aspects of the projects. For example, they define their needs and make decisions on accommodation standards and on security and communications requirements. However, many decisions on the Parliament buildings are made by the government and by PWGSC as custodian. In this context, making decisions takes time and ultimately results in project delays and inefficient use of resources.
- **3.31** Further, the parliamentary partners are not directly involved in the government approval process. Although they are consulted in the development of project documents, they cannot fully participate in the final stages of the government approvals and decisions regarding the projects.

#### **Accountability** is fragmented

- 3.32 In an agreement between the parliamentary partners and PWGSC for the governance of the Long-Term Vision and Plan, the Senate and the House of Commons, each being independent under the Constitution, state that they are each accountable for ensuring that their vision, goals, and objectives are realized. They are not accountable to outside agencies.
- **3.33** We found that the roles, responsibilities, and accountability of PWGSC laid out in the agreement could conflict with those of the parliamentary partners. The Department specifies that, as

custodian of the buildings, it is accountable to the Treasury Board for the effective and efficient delivery of the long-term plan. The plan is to be implemented under the Major Crown Project framework set out by the Treasury Board. At the same time, the Department states that it is also responsible for ensuring that implementation conforms to client requirements, performance objectives, and strategic goals.

- 3.34 Although the parliamentary partners define key project parameters and standards, PWGSC has to present projects to the Treasury Board for approval. In our view, since PWGSC must comply with the Treasury Board decisions in delivering projects on the Parliament buildings, the requirements as expressed by the parliamentary partners indirectly become subject to those decisions.
- 3.35 This situation puts PWGSC in a position where it has to deal with two potentially incompatible commitments. On the one hand, consistent with its accountability to the government, the Department has to deliver projects within specific parameters. On the other, the Department is also committed to meeting requirements from the parliamentary partners that are not subject to government control.

#### There is a lack of consensus on priorities

- 3.36 The rehabilitation of the Parliament buildings is a long-term undertaking. To sustain and focus their efforts and resources over this time, PWGSC and the parliamentary partners need to decide on their priorities. We expected that PWGSC would have an adequate planning framework that includes criteria for determining these priorities. We found that PWGSC and the parliamentary partners approach project priorities from different perspectives and that the governance framework does not help them make decisions.
- 3.37 The Senate and the House of Commons are preoccupied by the efficient and safe operations of Parliament. They emphasize the need to locate all their "core parliamentary functions" within a clearly defined, secure area north of Wellington Street. Further, they expect that the required rehabilitation work will be conducted with minimal impact on their operations.
- 3.38 Although PWGSC acknowledges the importance of locating the core functions north of Wellington Street, under the current plan, that cannot be achieved before the rehabilitation of Centre Block. The Department also acknowledges the need to minimize the impact of rehabilitation projects on Parliament's operations, but it believes that some negative effects are unavoidable.

- 3.39 Consistent with its mandate and role as building custodian, the Department has made a priority of the pressing rehabilitation work on Centre Block, and associated projects, for the next 10 to 15 years. Locating core functions north of Wellington Street would require new construction on the Hill. Department officials told us that, given the current level of funding and available resources, the need to keep Parliament Hill accessible to the public, and the priority to rehabilitate the Parliament buildings as quickly as possible, adding new construction work at this point would likely result in delays to current projects. Because of project interdependencies, delays could mean that the Senate and the House of Commons would still be located in Centre Block when the risk of total failure of key building systems becomes critical.
- 3.40 The parliamentary partners endorsed the PWGSC strategy on the condition that additional space would be available north of Wellington to minimize the impact rehabilitation work would have on Parliament's operations. They have expressed concern that if the current plan is followed, and no new space becomes available, several of Parliament's operations will remain outside the Hill for the next 15 to 20 years.
- 3.41 At the time of the audit, the administration of the House of Commons insisted on receiving additional space on the Hill as soon as possible. In 2009, PWGSC and the administration of the House of Commons each produced an analysis of the risks, cost, and timing of constructing a new building. Their analyses came to significantly different conclusions. As there is no decision-making mechanism in place, PWGSC hired a consulting firm to provide an independent review of the analyses and their assumptions. At the end of our audit, this work was still being finalized.

#### Long-term plans are not comprehensive

- 3.42 In the 1992 Report to the Senate and the House of Commons on Matters of Joint Interest, we pointed out the importance of a long-term plan. Such a plan is required for making decisions on what needs are to be met and when, delineating clearly the interdependencies between projects, estimating the cost, and establishing a course of action. Since 1992, three long-term plans have been developed by PWGSC, endorsed by the parliamentary partners, and approved by the government.
- 3.43 We found that none of the long-term plans were comprehensive. For example, the first plan did not deal with the needs of the parliamentary partners. The second plan did not cover needs such as

security and visitor services. The current plan added a number of new projects, but their timing, sequence, and interdependencies will be determined in separate, five-year rolling plans.

3.44 We note that although the parliamentary partners were consulted, and they endorsed all the long-term plans in principle, final decisions for carrying out the plans were made by the government.

#### There is no funding commitment to implement the long-term plan

- 3.45 Making sound decisions on how to obtain and use resources is an important aspect of good governance. We noted two funding issues that affect the governance of the Parliament buildings. First, although the parliamentary partners are consulted, they are not directly involved in the process for making decisions about funding. Second, there is no long-term funding commitment to implement the long-term plan.
- **3.46** Under the current framework, PWGSC, as building custodian, is responsible for seeking resources from the government to implement long-term plans and individual projects.
- 3.47 Although the parliamentary partners are consulted when decisions are made regarding which projects should be funded and what level of resources to request, they do not have access to the government decision-making process. Therefore, they cannot review or endorse the final documents presented to the government in support of requests for funding.
- 3.48 We also noted that the way funding decisions are made now, the government approves funding as an "envelope" that the Department is responsible for allocating among projects. The government does not always approve funding to cover a project's estimated costs over its entire schedule. This means that when PWGSC undertakes a large project, such as the West Block, it cannot plan it through to completion because it does not know when funding will be made available. The Department also has to seek government approval of the way it plans to allocate funding among projects. PWGSC states that this way of making funding decisions creates uncertainty and inefficiency in implementing projects and results in delays and higher risks and costs. For example, PWGSC's recent spending authority for interior demolition and asbestos abatement of the West Block will allow it to complete less than half of the required work because of the lack of full funding.
- **3.49** In our view, once plans and projects have been approved, resources for carrying them out need to be predictable. Stable funding

would make it easier to put projects in place, deal with their interdependencies, and meet long-term objectives, all of which could reduce costs.

#### The current custodianship arrangement hinders proper governance

PWGSC is the provider of general purpose office space to the government. As such, it is responsible for providing and maintaining the buildings that house those offices. However, under government policy, custodianship of special purpose space is often assigned to the operating department or agency. In either case, the custodian is responsible for deciding on priorities and seeking funds to implement them. For the Parliament buildings, PWGSC controls the rehabilitation projects and is responsible for seeking funding, but the ultimate purpose of these buildings is to support Parliament's unique operations. In our view, the Parliament buildings are a special purpose space and the control and responsibility for these buildings need to rest with Parliament.

Unresolved governance issues have contributed to delays and building deterioration

- 3.51 Governance has been examined in many reports: the Report of the Special Committee on Reform of the House of Commons, or McGrath Report (1985); the Nielsen Task Force (1986); and by our Office in the Report to the Senate and the House of Commons on Matters of Joint Interest (1992) and in the report to the House of Commons (December 1998).
- 3.52 In addition, in 2005 PWGSC and the parliamentary partners established a task force to review governance. In its report, A New Approach to Governance of the Parliamentary Precinct, the task force concluded that there are "key flaws" in the current governance, including a narrow mandate split across a number of organizations; fragmented and complex decision-making processes; and a lack of stable and committed funding devoted to development and upkeep of the buildings. The report recommended the implementation of a new governance model.
- 3.53 The need to rehabilitate the Parliament buildings was identified many years ago. A first long-term plan was approved in 1992, and since then over \$1 billion has been spent or allocated to projects on or related to the Parliament buildings (Exhibit 3.5). This money made it possible to complete renovations such as the masonry of the Peace Tower in 1997, to create additional support space by completing the Centre Block Underground Services in 1998, and to rehabilitate the Library of Parliament in 2006. More recently, PWGSC advanced or

Special purpose space—Space required to accommodate specific activities that are essential to programs; this space is typically not suitable for conversion to general office space.



West Block—Water infiltration into main structures is eroding mortar.

completed interim accommodation projects that will allow the main heritage buildings to be vacated for their major rehabilitation. However, the bulk of the rehabilitation work identified for the heritage buildings on the Hill has yet to be done (Exhibit 3.6).

- 3.54 Through its assessment of building conditions, PWGSC has identified serious risks that could affect the continued operations of Parliament in the years to come. These risks are already critical for West Block and are growing for Centre Block, the hub of Parliament's operations. Furthermore, the Senate and the House of Commons have indicated that their present and future needs cannot be met by the buildings in their present state.
- 3.55 We believe that only limited progress can be made on the rehabilitation of the Parliament buildings unless the governance framework is addressed. Three critical issues need to be dealt with: the accountability relationships; the long-term planning to rehabilitate buildings and meet the requirements of their main users; and the availability of resources to complete planned work.
- 3.56 Recommendation. The Minister of Public Works and Government Services Canada, in cooperation with and with the support of the speakers of the Senate and the House of Commons—and in concert with the Senate Standing Committee on Internal Economy, Budgets and Administration, and the Board of Internal Economy—should develop and propose mechanisms to ensure that responsibility and accountability for the Parliament buildings rest with the Senate and the House of Commons.

#### Public Works and Government Services Canada's response.

The governance challenges facing the Parliamentary Precinct are extremely complex and involve several organizations, including Public Works and Government Services Canada (PWGSC). The Department acknowledges the recommendation, which is broader than PWGSC and in fact the Government, and will, within its mandate and authorities, work with other stakeholders to strengthen governance.

exhibit 3.5 Plans have been made over the last two decades to rehabilitate the Parliament buildings

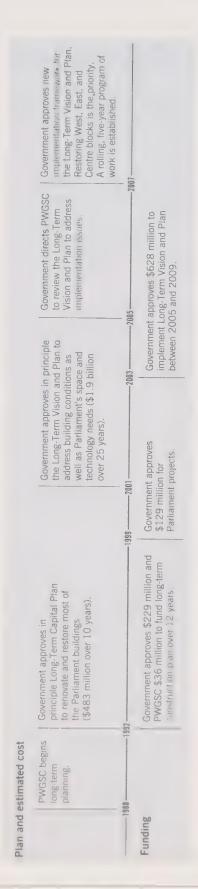
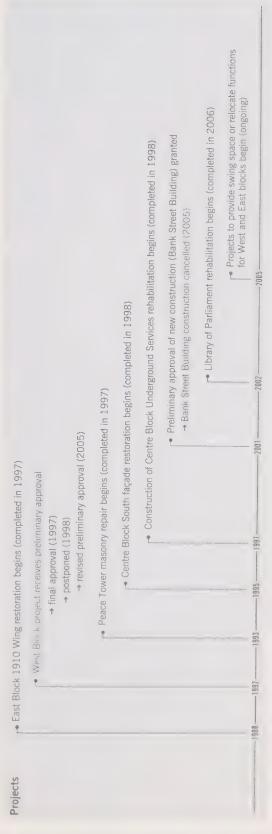


Exhibit 3.6 Some important projects have been completed, but the bulk of the work on the main heritage buildings has yet to be done

Source: Various Public Works and Government Services Canada documents



Source Various Public Works and Government Services Canada documents (unaudited)

#### **Project management**

- 3.57 Parliament Hill is a unique place, which can create challenges seldom found in most construction projects:
  - The buildings have acquired iconic status and are designated as a National Historic Site and classified as heritage buildings. This means that rehabilitation projects must protect heritage values.
  - Custodianship and control of the buildings are split.
  - These buildings are essential to the operations of Parliament. Due consideration must be given to minimizing any impact on Parliament's operations and operating budget, and to respecting the roles and privileges of Parliament.
  - Renovating the Senate and the House of Commons chambers requires temporary accommodation where their activities can continue without disruption. As a result, many projects are interdependent. For example, the rehabilitation of the West Block is a project in itself, but it is also required in order to vacate the Centre Block.
  - The security of the site and the occupants is a constant preoccupation that limits access and requires careful planning of the number of construction projects to occur at any given time.
  - · Project objectives include not only the rehabilitation of the structures but also upgrades to meet current and future needs of parliamentarians and citizens—a technical challenge in a heritage structure.
  - · The three principal buildings are in poor condition and in dire need of extensive work.

Each of the above elements represents a significant project management challenge. In most projects on the Hill, these challenges are combined, which compounds difficulties and raises project risks to very high levels.

#### Project management practices are generally sound

3.58 Once rehabilitation projects are approved, Public Works and Government Services Canada (PWGSC) is responsible for managing all stages of their development and implementation. Because of the challenges these projects present, we expected that PWGSC would have allocated authorities and resources appropriate to their scope, complexity, and risks. Considerations would include protecting the heritage character, collecting information on building conditions and

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client needs, taking the environment into account, producing costing estimates, and learning lessons from previous projects. We also expected that PWGSC would have a way of managing projects consistent with generally accepted practices.

3.59 We looked at some PWGSC project management activities for the West Block and the Library of Parliament. We also discussed project management issues with officials. We noted that since 2006, PWGSC has been implementing the National Project Management System to manage its projects. The system, based on the Project Management Institute Body of Knowledge, divides projects into three stages (inception, identification, delivery). Overall, we found that the project management practices we examined were generally sound.

#### The Department places due importance on protecting heritage character

- 3.60 The heritage character of the Parliament buildings has deteriorated over the years, and some heritage elements have even been lost. Given the symbolic importance of the buildings, we examined whether heritage protection was taken into account in rehabilitation projects. We expected that PWGSC would have reliable information on the heritage values of the Hill's main buildings. This information would help ensure that the planned rehabilitation protects the heritage character of the buildings. We examined PWGSC planning documents on the heritage aspect of the West Block and the Library of Parliament. We also met with officials at PWGSC, the Federal Heritage Buildings Review Office (FHBRO), the Senate, the House of Commons, and the Library of Parliament.
- **3.61** We found that in planning its rehabilitation projects, PWGSC places importance on the protection of the heritage character of the buildings. The Department has produced reports on building history and has developed planning documents to establish a basis for the rehabilitation work. The Department has access to internal experts and hires external specialists when needed.
- 3.62 We also found that PWGSC consults regularly with FHBRO and has sent it a number of documents for comment. PWGSC takes these comments into account when planning its projects. FHBRO has commended the current West Block project for showing great respect for the heritage character of the building.
- **3.63** PWGSC followed a similar consultation process during the rehabilitation of the Library of Parliament, a project that was considered a success. The work was well received by the Library of



West Block—Water infiltration into main structures is eroding mortar.

Parliament administration and won domestic and international recognition for excellence in restoration and conservation of heritage buildings.

### The Department has a reasonable approach to collecting information on building conditions

- 3.64 We expected that PWGSC would have a process to collect reliable information on the conditions of the main buildings. This information is essential for the day-to-day management of the buildings and for planning rehabilitation work. We examined the methodology PWGSC used to collect information on building conditions, the condition reports, and PWGSC activities and plans to gather further information to plan the West Block rehabilitation project.
- **3.65** We found that since the late 1980s, when the condition of the buildings became a concern, PWGSC produced many reports on the condition of the Parliament buildings.
- 3.66 PWGSC has used these reports to maintain the buildings and increase its knowledge of their operations as well as to ensure the health and safety of occupants. However, these reports alone will not be sufficient to guide the development of rehabilitation projects. Therefore, in planning the West Block rehabilitation, PWGSC has developed specific projects and strategies to increase its knowledge of the building conditions and of the construction techniques used to build it.
- 3.67 For example, PWGSC is partnering with three universities to conduct seismic studies of the masonry of the West Block to ensure that the building will meet the seismic requirements introduced in the 2005 National Building Code of Canada.
- 3.68 PWGSC also took on pilot rehabilitation projects of two towers of the West Block, some of the most deteriorated areas of the building. It has also initiated a monitoring program to better understand the movement of the stones in the walls.
- 3.69 At the time of the audit, the Department had established a schedule for implementing the West Block project that will allow for gathering further information on the condition of the building as the project progresses. For example, the construction phase will begin with asbestos abatement and interior demolition. Department officials told us that this schedule will provide opportunities to further explore the condition of the building before moving on to the next phases. With this additional information, PWGSC aims to refine rehabilitation projects and reduce construction risk.

#### A process is in place to collect information on client needs

- 3.70 The primary purpose of the buildings is to serve the operations of Parliament. We expected that, to fulfill this function, PWGSC would establish a process to obtain reliable information on the requirements of the main buildings' occupants as well as the needs for visitor services and security. This information would ensure that rehabilitated buildings will continue to serve their main occupants. We found that for approved projects, PWGSC has established a process that helps define user requirements and integrate them into rehabilitation projects. However, because of project interdependencies and the time frame of the long-term plan, interim solutions to meet some user requirements are sometimes necessary. The administration of the House of Commons has expressed concern that such interim solutions could become permanent and not meet operational requirements.
- The process begins with the parliamentary partners providing PWGSC with their overall requirements. PWGSC then considers how to meet those needs by conducting feasibility studies, analyzing options, and further developing the project. For example, in planning the delivery of the first stage of the rehabilitation of the West Block, when the building will be used as swing, or interim, space for the House of Commons chamber, the demand on the building space was divided among different groups of users and functions. PWGSC established with the administration of the House of Commons a process to ensure that the needs were defined for each user group and function while taking into account the relationships among them. At the time of the audit, most user requirements were defined, and the Department and the administration of the House of Commons were finalizing the rest. PWGSC officials informed us that this process was moving well. We noted that the administration of the House of Commons expressed concern that PWGSC is advancing the overall design without its formal sign off on all requirements.
- 3.72 PWGSC also defined related projects to ensure that security, visitor services, and material handling would be available when the West Block houses the temporary chamber. At the time of the audit, the construction of a permanent facility for security and visitor services was being discussed, while a temporary solution using an existing facility had been projected for material handling. However, these proposed projects were only at a preliminary stage and required further discussions with the government. The administration of the House of Commons expressed concern that related projects were not fully developed, which could result in changes in the West Block project.

3.73 Given the long duration of rehabilitation projects, the Department also identified the risk that user needs, or other factors such as technology, could change during the course of the project. The Department has therefore integrated this risk into its cost estimates.

#### Impact on the environment is taken into account

- 3.74 Protecting the environment is an important objective for the Department as well as for the parliamentary partners. We expected that PWGSC would have a process to take into account the impact of the rehabilitation projects on the environment. We examined environmental assessments and reports on environmental risks, such as the presence of asbestos and other designated substances, and the objectives that the Department has set to reduce the building's impact on the environment.
- 3.75 We found that PWGSC has commissioned studies to identify the presence of designated substances. Many substances are present in the West Block, but the full extent of contamination cannot be confirmed until the building is vacated. Officials told us that the plans for removing and disposing of these substances safely will be finalized at that time.
- 3.76 We also found that, in keeping with its own policy, the Department has set objectives to reduce the impact of the building operations on the environment. In developing this aspect of the project, PWGSC is using the Green Globes guide for heritage buildings. The Department set a target to achieve Green Globes certification (70 percent level). At the time of the audit, the Department had integrated some environmental improvements in the project plan—such as applying measures to reduce energy and water consumption and using material with recycled content—while other methods were still under consideration. PWGSC was confident that the target could be achieved.

#### The Department has a costing methodology in place

3.77 The rehabilitation of heritage structures is costly and difficult to forecast. Costing information enables the Department and the government to make decisions and monitor performance. We expected that PWGSC would have a process to produce reliable and timely costing information. We examined the methodology used by PWGSC to estimate costs, including costing reports. We also looked at the costing information PWGSC provided to the government. We have not assessed the accuracy of the cost estimates.

**Designated substances**—Substances prohibited or strictly controlled under provincial health and safety legislation because they may endanger the health and safety of workers.

Green Globes—An environmental assessment, education, and rating system used in Canada and the US, and adopted by PWGSC in 2005, to assess and benchmark building environmental management, including heritage aspects.

- 3.78 We found that PWGSC has a costing methodology in place. The Department uses consulting firms specialized in construction costing to generate and update this information. It also consults with its own internal specialists. For the projects currently approved, PWGSC is updating its cost estimates every month to ensure that it is working with the most up-to-date information.
- 3.79 We noted that PWGSC has adapted its costing methodology to match the way these projects are being funded by the government. For example, only \$55 million of the estimated cost of \$800 million for the rehabilitation of the West Block has been approved. Because full funding is uncertain, the Department has broken the project down into phases and time sequences to help it decide on whether to accelerate, slow down, or stop its implementation, depending on the level and timing of funding. The Department has had to estimate each phase in a manner that allows for these decisions.
- 3.80 We also found that PWGSC has improved its costing methodology and estimates based on lessons from other projects. For instance, the Department has learned from other heritage projects that it must make a higher provision for contingency and risk because of the limited information available on building conditions. The Department estimates contingency allowance for heritage buildings at approximately 20 to 25 percent of the estimated construction costs, compared to 10 percent for new construction. The Department also has developed more accurate information on various project costs, such as its own management fees.

#### Rehabilitation projects benefit from lessons learned

- 3.81 Between 2002 and 2006, the Library of Parliament was the first Parliament building in over 40 years to undergo a major rehabilitation. The result has been recognized with numerous awards for outstanding work. Officials from the Library also told us that it met their expectations. We expected that PWGSC would have a mechanism in place to capture, and transfer to future projects, lessons learned from this project.
- 3.82 We found that, where possible, expertise gained in the renovation, rehabilitation, and upgrade of the Library of Parliament is being used in planning the West Block project. For example, PWGSC learned how critical it was to ensure that clients fully participate in the planning and implementation of their projects. PWGSC currently provides funding to the House of Commons administration to help it hire experts to support the project. The decision-making structure

used for the Library project is also being applied to the House of Commons projects. PWGSC has also transferred several employees from the Library of Parliament project to the West Block project to assure continuity in practices. In our view, however, given the long-term nature of the building rehabilitation, PWGSC would benefit from a more comprehensive approach to capture and transfer lessons learned from projects.

#### Conclusion

3.83 The current governance framework is inadequate for guiding the overall rehabilitation of the Parliament buildings. In particular, it fragments decision making and accountability and prevents those involved from reaching consensus on priorities and committing resources to carry out long-term plans. The weaknesses in the governance framework result in delayed decisions and projects and contribute to increasing project costs and risks. The gaps in the framework, although identified as early as 1985, cannot be attributed to just one organization. We believe that unless these gaps are addressed, only limited progress can be made on the rehabilitation of the buildings.

3.84 The rehabilitation projects on Parliament Hill are unique and complex. Public Works and Government Services Canada (PWGSC) has put in place generally sound project management practices to develop projects and seek approval once rehabilitation projects are supported by all parties. These practices take into account the heritage character of the buildings, their age and conditions, the needs of their users, and the protection of the environment. The Department has also developed a cost-estimating methodology that takes into account the risks of rehabilitation projects, and it updates this information regularly. Where possible, PWGSC has integrated lessons learned from the Library of Parliament project. Despite the project management practices in place, setting priorities and satisfying client requirements will remain difficult until the governance framework is addressed.

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#### About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

#### **Objectives**

The overall audit objective was to determine whether Public Works and Government Services Canada (PWGSC) manages the project for the rehabilitation of the Parliament buildings using sound management practices that respect the heritage character of the buildings while meeting the needs of Parliament.

The sub-objectives were to determine whether

- PWGSC, within its mandate and in cooperation with the other involved entities, has put in place a sound governance framework for the overall rehabilitation project; and
- PWGSC has sound project management practices for the rehabilitation of the Parliament buildings.

#### Scope and approach

The audit examined the governance framework for the rehabilitation of the Parliament buildings and the project management systems put in place by PWGSC. The audit focused on PWGSC's role in governing the rehabilitation of the buildings and on the project management processes it has put in place to draw lessons from the conservation, rehabilitation, and upgrade of the Library of Parliament, and to collect and produce information for planning the rehabilitation of the West Block.

We reviewed relevant documents provided by PWGSC on the two projects examined (the Library and the West Block) and on the implementation of the overall long-term vision and plan. We interviewed PWGSC management and officials involved in projects, and we visited many buildings on the Hill and associated support projects. We also interviewed officials in the administration of the Senate, the House of Commons, and the Library of Parliament, and in the Federal Heritage Buildings Review Office (Parks Canada Agency).

We did not conclude on specific issues regarding implementation, costing, or scheduling of the Library of Parliament project. The audit did not examine contracting activities.

#### Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources		
(PWGSC), to have, in cooperation with the other entities involved in the rehabilitation of the Parliament buildings, reached an agreement that establishes a sound governance framework for the overall project.	Pile, in Management of Real Property Thanks Eastern Co.		

Criteria	Sources			
We expected PWGSC to have reliable information on the heritage values of the main buildings.	Policy on Management of Real Property, Treasury Board, 2006			
We expected PWGSC to have reliable information on the physical conditions of the main buildings.	Policy on Investment Planning—Assets and Acquired Services, Treasury Board, 2007			
We expected PWGSC to have reliable information on the requirements of the main buildings' tenants for space and services; the needs for visitor services and security.	Policy on Investment Planning—Assets and Acquired Services, Treasury Board, 2007			
We expected PWGSC to have taken into account the impact of the rehabilitation projects on the environment.	Policy on Management of Real Property, Treasury Board, 2006			
We expected PWGSC to have an adequate planning framework that includes priority determination criteria.	Policy on Investment Planning—Assets and Acquired Services, Treasury Board, 2007			
We expected PWGSC to have reliable and timely costing information to support decision making and performance monitoring.	<ul> <li>Project Management Policy, Treasury Board, 1994</li> <li>Policy on Investment Planning—Assets and Acquired Services Treasury Board, 2007</li> </ul>			
We expected PWGSC to have a mechanism to manage the initiation, planning, execution, control, and closing of projects within a framework consistent with generally accepted practices.	Policy on the Management of Projects, Treasury Board, 2007			
We expected PWGSC to have, from project inception, allocated authorities and adequate resources appropriate to the scope, complexity, and risk of the project.	Policy on the Management of Major Crown Projects, Treasury Board, 1994			
We expected PWGSC to have carried out project evaluations and identified lessons learned.	Project Management Policy, Treasury Board, 1994			

Management reviewed and accepted the suitability of the criteria used in the audit.

#### Period covered by the audit

The audit covered the period between January and October 2009. However, some documents reviewed go back to 1988. The audit work for this chapter was substantially completed on 30 October 2009.

#### Audit team

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#### Appendix List of recommendations

The following is the recommendation found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation Response Governance 3.56 The Minister of Public Works Public Works and Government Services Canada's response. and Government Services Canada, in The governance challenges facing the Parliamentary Precinct cooperation with and with the support are extremely complex and involve several organizations, of the speakers of the Senate and the including Public Works and Government Services Canada House of Commons-and in concert (PWGSC). The Department acknowledges the with the Senate Standing Committee recommendation, which is broader than PWGSC and in fact the on Internal Economy, Budgets and Government, and will, within its mandate and authorities, work Administration, and the Board of with other stakeholders to strengthen governance. Internal Economy—should develop and propose mechanisms to ensure that responsibility and accountability for the Parliament buildings rest with the Senate and the House of Commons. (3.26 - 3.55)



### Report of the Auditor General of Canada to the House of Commons—Spring 2010

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Message from the Auditor General of Canada







## 2010



Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

Chapter 4
Sustaining Development in the Northwest Territories



Office of the Auditor General of Canada



## 2010



Report of the

# Auditor General of Canada

to the House of Commons

SPRING

Chapter 4
Sustaining Development in the Northwest Territories





Office of the Auditor General of Canada

The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

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Ce document est également publié en français.

© Minister of Public Works and Government Services Canada 2010 Cat. No. FA1-2010/1-4E ISBN 978-1-100-15335-3 ISSN 0821-8110









### Chapter

4

Sustaining Development in the Northwest Territories



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# Sustaining Development in the Northwest Territories

### **Main Points**

### What we examined

The Government of Canada has highlighted the North as a fundamental part of our national identity and a vital part of Canada's future. For many years, and in its 2009 Northern Strategy, the government committed to protecting environmental heritage, promoting economic and social development, and improving governance so that northerners have greater control over their destinies.

In virtually every part of the Northwest Territories (NWT), land claims and self-government agreements have either been settled or are being negotiated. When a claim is settled, co-management boards are established that include federal and territorial representatives as well as members of the Aboriginal community. Responsibilities of co-management boards include developing land use plans and issuing permits for land and water use, often with conditions attached to protect the environment. Skills training and economic development programs are intended, in part, to help ensure that Aboriginal peoples in the Northwest Territories benefit from development and employment opportunities. Settled land claims, an environmental regulatory system, and community capacity to participate in economic development opportunities are key measures that support sustainable and balanced development in the NWT.

We examined how Indian and Northern Affairs Canada (INAC), Environment Canada, and Human Resources and Skills Development Canada (HRSDC) have supported these key measures in the NWT. We did not audit the activities of co-management boards.

Audit work for this chapter was substantially completed on 20 November 2009.

### Why it's important

Natural deposits of diamonds, metals, minerals, and oil and gas in the NWT provide extensive opportunities for resource development. Economic benefits of development include the potential for direct employment, economic opportunities, improved social conditions, and increased revenue for government. At the same time, the natural environment of the NWT is vast, fragile, and unique. Aboriginal communities depend on the wildlife, water, and habitat. The impacts of climate change and air, land, and water contaminants are now understood to have a disproportionate effect on northern ecosystems.

The federal government has specific obligations relating to effective governance, environmental protection, and capacity building to provide for sustainable and balanced development in the Northwest Territories. Failure to meet these obligations could mean missed economic opportunities, environmental degradation, and increased social problems in NWT communities.

### What we found

- The Government of Canada (represented by INAC), the Government of the NWT, and Aboriginal groups have finalized land claim agreements in the Inuvialuit, Gwich'in, Sahtu, and Tlicho regions of the NWT. INAC has made progress toward finalizing the four comprehensive land claim settlements and ten self-government agreements still being negotiated in the NWT. However, significant delays in the Department's provision of agreed-upon funding to some First Nations have hindered their participation in the self-government negotiations process.
- An environmental regulatory system is mostly in place in regions with settled land claims—co-management boards have been established, development decisions are being made, and land use plans are being developed. INAC has improved its support to co-management boards since 2005 and has supported the development of land use plans in these regions. However, key components of the environmental regulatory system are missing in regions where land claims have not been settled and where regional co-management boards have thus not been established. In many cases, there is no clear requirement for land use plans or a mechanism for community involvement in decision making, and consequently decisions on development applications take longer than in regions with settled land claims.
- INAC and Environment Canada have not met their responsibilities
  to monitor the cumulative impact of development and of various
  pollutants on the fragile environment in the NWT, whether or not a
  settled land claim is in place. Therefore, co-management boards are
  missing environmental information that they could use in making
  decisions on development proposals.

- HRSDC's programs support skills training for Aboriginal peoples in the NWT and monitor short-term objectives and targets. However, the Department has yet to assess the longer-term impact of its skills training programs regarding sustainable employment of Aboriginal peoples.
- INAC's programs to support economic development in the NWT by funding community projects and activities lack a strategic focus and they do not have specific objectives against which progress can be measured and results tracked. The government recently transferred economic development programs in the NWT from INAC to the new Canadian Northern Economic Development Agency.

The departments and the Canadian Northern Economic Development Agency have responded. The departments and the Agency agree with our recommendations. Their detailed responses follow each recommendation throughout the chapter.



### Introduction

- 4.1 The cornerstones of the Northwest Territories' (NWT's) economy are oil and gas development and mining. Because it is resource-driven, the economy fluctuates significantly, reflecting changes in the demand for fossil fuels and various minerals. Despite the current global economic conditions, the NWT's proven and potential resource base suggests that long-term production of oil and gas and minerals such as diamonds is likely to increase significantly.
- 4.2 The Government of Canada has highlighted the North as a priority and noted that it is a fundamental part of our heritage and our national identity, and a vital part of Canada's future (Exhibit 4.1). The 2007 Speech from the Throne declared that "the North needs new attention" and outlined the government's commitment to develop "an integrated northern strategy focused on strengthening Canada's sovereignty, protecting our environmental heritage, promoting economic and social development, and improving governance, so that northerners have greater control over their destinies." Since then, the federal government has announced several initiatives for the North, including the Canadian Northern Economic Development Agency and the Northern Projects Management Office.

### **Development in the Northwest Territories**

- 4.3 In 1974, the Government of Canada appointed Justice Thomas Berger to conduct an inquiry into the social, environmental, and economic impacts of a proposed pipeline through the Mackenzie Valley. The 1977 report of the Berger Inquiry concluded that such a pipeline would pose significant risk to the environment and provide few long-term economic benefits to northern communities. It particularly raised concerns about the impact of development on Aboriginal peoples. It recommended that the pipeline project be delayed 10 years and that any development be preceded by land claim settlements with Aboriginal peoples.
- 4.4 Also in 1974, Indian and Northern Affairs Canada (INAC) began negotiating comprehensive land claim agreements (CLCAs) and self-government agreements (SGAs) with Aboriginal groups on behalf of Canada as part of the federal government's responsibility to oversee the evolution of governance structures in the NWT (Exhibit 4.2). Also known as modern treaties, CLCAs are based on claims that were not

dealt with by treaty or other means. Almost all the NWT is either included within settled land claim areas or is the subject of ongoing negotiations (Exhibit 4.3).

#### Exhibit 4.1 The Northwest Territories has distinctive qualities

#### The People

- In 2006, the population was 41,000, split evenly between Aboriginal and non-Aboriginal people.
- The Aboriginal population increased 11 percent from 2001 to 2006, and has a median age of 26 years.
- In 2006, 45 percent of the Aboriginal population 15 years and older had a high school diploma, compared with 67 percent overall for the NWT.

#### The Environment

- The NWT represents 13 percent of Canada's territory with 1.3 million square kilometres of land.
- From 1948 to 2005, the Mackenzie Valley District warmed by 2°C. By comparison, the temperature in Canada as a whole increased by 1.2°C over the same period.
- From 1996 to 2006, the Bathurst caribou herd in the NWT declined 63 percent, from 349,000 to 128,000.

#### · The Economy

- In 2004, diamond mining accounted for nearly half of the NWT's gross domestic product.
- In 2005, the median income for the Aboriginal population in the NWT was \$20,080 and the unemployment rate was 20 percent.
- In 2009, the NWT had the highest per capita GDP in Canada: \$91,306.
- In December 2008, the average cost of a house in the NWT was \$362,363, making it the second most expensive housing market in Canada.

#### The Potential

- The NWT, Nunavut, and Arctic offshore hold 33 percent of Canada's remaining conventionally recoverable natural gas and 35 percent of remaining recoverable light crude oil.
- From 2007 to 2009, 19 percent of the NWT was covered by prospecting permits, mineral claims, and mineral leases.

#### Exhibit 4.2 Comprehensive land claim agreements (CLCAs) and self-government agreements (SGAs)

#### **CLCAs**

- Transfer title to Aboriginal groups for selected lands, provide financial compensation, and other defined rights. In exchange, the group relinquishes its rights to title over other lands within its claimed territory.
- Establish co-management boards so that the Aboriginal groups will be involved in decision making on renewable and non-renewable resources, environmental management, and land use planning.
- May provide for continued use of lands for traditional activities, such as hunting and trapping.
- Provide the means for the Aboriginal groups to participate in economic opportunities and maximize the social benefits from them.
- · May include more than two dozen chapters on a range of topics from harvesting rights to economic provisions.
- Give certainty to ownership and use of land and resources.

#### SGAs

- Establish Aboriginal governments for matters internal to their communities and integral to their unique cultures, identities, traditions, languages, and institutions; and with respect to their relationship to the land and resources.
- May include jurisdictions such as education, policing, health, social services, and natural resource management.
- Involve establishing governing structures, internal constitutions, elections, and leadership selection processes.

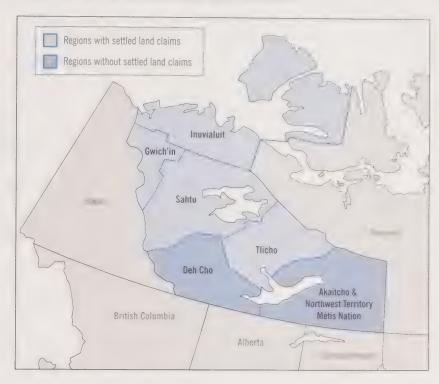
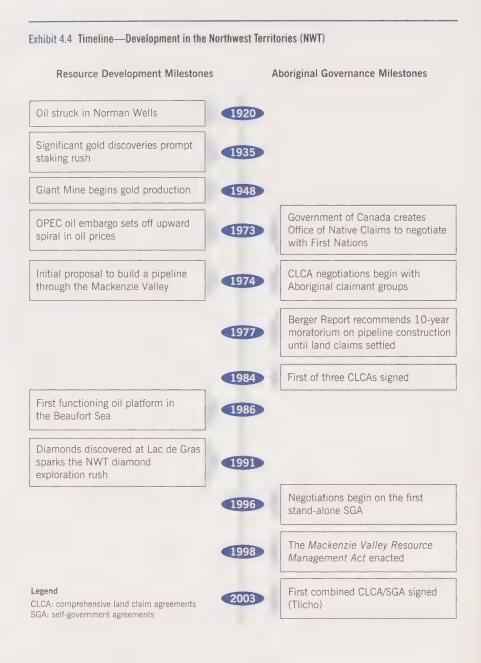


Exhibit 4.3 Comprehensive land claims in the Northwest Territories

- 4.5 The proposed Northwest Territories Mackenzie Gas Project would deliver natural gas to market via a pipeline that follows the Mackenzie Valley and a gathering system connecting anchor fields located in the Mackenzie Delta. In June 2002, environmental and regulatory agencies in the North created a Cooperation Plan and, in 2004, announced the appointment of the Joint Review Panel to evaluate the potential impact of the Mackenzie Gas Project in the Northwest Territories on the environment and livelihood of people in the project review area. Subsequent to our audit, in December 2009, the Joint Review Panel issued its final report. The report concluded that, subject to the full implementation of the panel's 176 recommendations, the adverse impact of the Mackenzie Gas Project would not likely be significant and that the project would likely make a positive contribution toward sustainability. Government and industry responses to the Joint Review Panel report are pending.
- **4.6** The timeline depicted in Exhibit 4.4 provides a history of northern resource development and settlement of land claims and self-government agreements.



### The federal role

The federal government has a mandate to promote political and economic development in the NWT and to protect the environment. Although there are many federal departments and agencies with responsibilities in the North, our audit looks at some of the responsibilities of Indian and Northern Affairs Canada, Environment Canada, Human Resources and Skills Development Canada, and the new Canadian Northern Economic Development Agency.

- 4.8 The Department of Indian Affairs and Northern Development Act mandates the Minister of Indian and Northern Affairs Canada to undertake, promote, and recommend policies and programs for economic and political development of the NWT. The Department has lead responsibility for managing Crown lands and for managing water, mineral, and oil and gas resources throughout the NWT. It negotiates land claims and self-government agreements on behalf of the federal government and is responsible, in part, for land development, environmental protection, and cumulative impact monitoring in the NWT.
- **4.9** Environment Canada is one of several partners responsible for environmental stewardship in the NWT and has various responsibilities related to cumulative impact monitoring and research.
- 4.10 Indian and Northern Affairs Canada and the new Canadian Northern Economic Development Agency have mandates to support regional economic development in the NWT. Human Resources and Skills Development Canada's mandate is to establish and implement programs designed to support projects or other activities that contribute to the development of human resources and to the skills of Canadians.
- 4.11 In previous audits of the North, we looked at specific issues such as the implementation of CLCAs and federal support to co-management boards. In this audit, we take a broader look to determine whether the responsible federal departments have laid the foundations for sustainable and balanced development in the NWT.

### Focus of the audit

- 4.12 The focus of our audit was to determine whether Indian and Northern Affairs Canada, Environment Canada, and Human Resources and Skills Development Canada had adequately implemented key measures to prepare for sustainable and balanced development in the Northwest Territories. In August 2009, during our audit, the Canadian Northern Economic Development Agency (CanNor) was created. Responsibilities for the INAC economic development programs included in the scope of our audit were subsequently transferred to this new agency.
- **4.13** The key measures or pillars for sustainable and balanced development that we looked at were the settlement of CLCAs and SGAs, the establishment and implementation of a regulatory system

that protects the environment, and the support of appropriate economic development and skills training programs for Aboriginal peoples.

**4.14** More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

### **Observations and Recommendations**

# Aboriginal governance and control of land and resources

- 4.15 Agreements with Aboriginal peoples setting out governance rights and the ownership of land and resource rights are important for environmental protection and economic development because they help provide a level of certainty and predictability for business, industry, communities, and governments.
- **4.16** We examined whether Indian and Northern Affairs Canada (INAC) had finalized or made progress toward agreements on the ownership of land and resources, and governance rights of Aboriginal communities in the Northwest Territories (NWT), under the 1986 policy on comprehensive land claims and the 1995 policy on the inherent right to self-government.
- 4.17 We expected that INAC had made constructive efforts to finalize comprehensive land claim agreements (CLCAs) and self-government agreements (SGAs) in the NWT by establishing processes for negotiation, following them, and monitoring and adjusting them as necessary. We looked at how many agreements had been finalized, and reviewed policies and procedures for those under negotiation. We also reviewed documentation on active negotiations, including work plans, agendas, meeting minutes, and progress reports. We interviewed INAC officials and representatives from Aboriginal communities and from the Government of the Northwest Territories.

### Progress is being made on finalizing outstanding land claims

4.18 Negotiating agreements is complicated and there are differences among and within regions and communities in the NWT, and among the goals of the various Aboriginal groups. To be successful, therefore, the federal government recognizes the need to be flexible. Given their complexity and potential for lasting impact, CLCAs and SGAs can take many years to conclude. The Aboriginal groups we interviewed that have yet to settle their claims all expressed a desire to finalize these agreements.

- 4.19 INAC has established processes for negotiating land, resource, and self-government agreements. The Aboriginal group initiates the process, which includes INAC and the Government of the Northwest Territories. After Canada accepts a claim, the parties negotiate a framework agreement to outline the issues that will be included and the timelines for reaching an agreement-in-principle. To help maintain the momentum of negotiations during this process, Canada and Aboriginal groups may enter into interim agreements that address issues such as land use planning, pre-screening processes for development permits, and economic development measures. The final agreement details all provisions and related roles and responsibilities, and must be ratified by all parties.
- **4.20** Working with Aboriginal groups and the Government of the NWT, INAC has finalized four CLCAs covering over half the area of the NWT since the 1977 recommendations of the Berger Inquiry. One of them—the Tlicho Agreement—is also an SGA (Exhibit 4.5).
- **4.21** Four CLCAs in the Akaitcho, Dehcho, and Northwest Territory Métis Nation regions are currently under negotiation. Ten self-government agreements are also under negotiation in the Akaitcho, Dehcho, Gwich'in, Inuvialuit, Sahtu and Northwest Territory Métis Nation regions.

Exhibit 4.5 Four comprehensive land claim agreements have been finalized

	Comprehensive land claim agreements (CLCAs)			
Description of agreements	Inuvialuit	Gwich'in	Sahtu	Tlicho
Agreement signed	5 June 1984	22 April 1992	6 September 1993	25 August 2003
Beneficiaries*	4,000	3,200	3,200	3,500
Land obtained Surface Subsurface**	90,650 km <sup>2</sup> 12,950 km <sup>2</sup>	22,329 km <sup>2</sup> 6,158 km <sup>2</sup>	41,437 km <sup>2</sup> 1,813 km <sup>2</sup>	39,000 km <sup>2</sup> 39,000 km <sup>2</sup>
Financial compensation	\$152M over 14 years	\$141M over 15 years	\$130.4M over 15 years	\$152M over 14 years
CLCA co-management boards	Fisher as Management. Wildlife Management (NWT and North Slope), Environmental Impact Screening and Review	Renewab e Resources. Land and Water, Land Use Planning, Environmental Impact Review, Surface Rights	Renewative Resources.  Land and Water,  Land Use Planning,  Environmental Impact  Review, Surface Rights	Renewable Resources. Land and Water, Environmental Impact Review
Aboriginal communities	6	4	5	4

<sup>\*</sup> Approximate number based on information from the Government of the Northwest Territories

<sup>\*\*</sup> Subsurface land obtained is typically part of the surface area and includes resources such as mines and minerals.

- 4.22 We found that INAC has made constructive efforts to negotiate CLCAs and SGAs and has followed the established processes for negotiation. The Department's efforts include developing and acting on annual work plans with other parties at each main negotiation table and attending scheduled meetings. INAC also reviews and assesses the activities at each negotiation table annually to determine progress and make recommendations as required. These reviews include quantitative measures of actions and progress and a qualitative analysis of successes and challenges. We found that INAC has consistently conducted these reviews for all negotiation tables.
- 4.23 Based in part on these reviews, INAC has used alternative approaches at negotiation tables that appeared to be stalled. For example, in one case, INAC proposed steps the Aboriginal group could take to outline its position. The group accepted this proposal and plans to present its work to the Department for response in the coming months. The Department has also negotiated interim agreements with groups in unsettled regions for the purpose of advancing negotiations. These agreements provide benefits and protect resources in advance of an agreement-in-principle.
- 4.24 We found that INAC had established a process through which these agreements are being negotiated, had monitored activity, and had adjusted the process as necessary. While much remains to be done, in our view, the efforts to settle CLCAs and SGAs along with the four concluded CLCAs represent a significant achievement and an important step toward sustainable and balanced development in the NWT.

### Delays in funding self-government negotiations undermine the process

- 4.25 INAC has entered into contribution agreements with Aboriginal communities to fund their participation in negotiations on self-government. This funding allows Aboriginal groups to obtain legal advice, hire staff and negotiators, and consult within the community. We looked at the funding process and contribution agreements for negotiations on self-government in selected communities for the fiscal years 2007–08 and 2008–09 to determine how and when communities had received the funding.
- **4.26** We found that the nature of the annual funding process makes it difficult for communities to receive funding at the beginning of the fiscal year within which it must be spent. On average, the agreements we looked at were signed more than six months after the beginning of

the fiscal year and several were signed within the last month before the agreement expired. This means that communities need to complete the activities required under the agreement long before receiving any funding.

- INAC officials told us that communities are expected to self-finance their self-government negotiations activities either by reallocating funds or by borrowing. This can have significant consequences, particularly for communities with limited resources. In First Nations without CLCAs in place, officials told us that this situation has resulted in overdraft charges and penalties, damaged business relationships, delays in meeting payroll, and the loss of experienced staff. These can affect First Nations' ability to participate in negotiations.
- 4.28 Recommendation. Indian and Northern Affairs Canada should identify and implement mechanisms, such as multi-year funding for contribution agreements, to ensure timely funding of the activities of Aboriginal communities regarding negotiations on self-government.

The Department's response. Agreed. The Department acknowledges the requirement for mechanisms such as multi-year funding for contribution agreements and will be implementing the new Transfer Payment Policy, which allows for multi-year funding to recipients, targeted for 31 March 2011.

### **Environmental regulatory system**

- The natural environment of the Northwest Territories (NWT) is vast, fragile, and unique. Protecting the environment is important as Aboriginal communities in the NWT depend on the wildlife, water, and land for subsistence and for economic development opportunities. Comprehensive land claim agreements help protect the environment by setting aside land of environmental and cultural importance to the community and by establishing a land use planning process.
- The development of natural resources in the Northwest Territories is subject to a complex regulatory system involving various federal departments, the Government of the NWT, and Aboriginal groups. This system seeks to balance the needs of industry for certainty and predictability with the rights of Aboriginal groups to make decisions that affect their lands and interests, including environmental protection. Indian and Northern Affairs Canada (INAC) is responsible for supporting co-management boards and land use planning, and for environmental management matters including environmental monitoring and inspection and enforcement of development permits. Environment Canada is also responsible for cumulative impact and

- environmental monitoring in the NWT. We expected that INAC and Environment Canada had each acted on their respective responsibilities in this area.
- 4.31 We examined whether INAC and Environment Canada had established and implemented an adequate regulatory system to manage land and water resources and to protect the environment in the NWT. We did not audit the role or operations of co-management boards.
- **4.32** We reviewed documentation and interviewed officials from INAC and Environment Canada in Yellowknife and the National Capital Region. We also interviewed representatives of selected co-management boards and members of Aboriginal communities.

# The environmental regulatory system is mostly complete in regions with settled land claims

- 4.33 In provinces such as Ontario, communities affected by development are consulted but final decisions may be made by government or those not directly from the community. In most of the NWT, community representatives exercise final decision-making power through co-management boards, and formal consultation is a critical component of these decisions.
- 4.34 Two regulatory jurisdictions exist in the NWT: the Inuvialuit Settlement Region, which covers the northernmost regions of the territory, including islands in the Beaufort Sea; and the Mackenzie Valley, which includes all other areas of the NWT. The regulatory environment of both jurisdictions is structured around regional co-management boards (Exhibit 4.6), whose purpose is to ensure that Aboriginal peoples and other northerners can participate meaningfully in decision making.
- **4.35** Co-management boards and land use plans are two important components that are established in the NWT as a result of comprehensive land claim agreements (CLCAs).
- **4.36** Co-management boards. INAC has important responsibilities related to supporting co-management boards, particularly on developing the capacity of board members. In 2005, our Office and INAC conducted separate audits of the regulatory system in the NWT and identified a number of weaknesses related to the Department's support to co-management boards under the *Mackenzie Valley Resource Management Act*. The Department committed to addressing many of

the weaknesses. In 2007, the Minister of Indian and Northern Affairs Canada initiated the Northern Regulatory Improvement Initiative and appointed a special representative to recommend how to advance the regulatory systems in the NWT.

- **4.37** In this audit, we examined the Department's progress in implementing numerous commitments, which it made in 2005, related to supporting the co-management boards. We expected that the Department had made satisfactory progress in addressing the weaknesses found in the 2005 audits.
- 4.38 We found that INAC has met its commitments and addressed many of the weaknesses identified, which included a lack of support for developing the capacity of board members, unclear roles and responsibilities of the boards, and lack of strategic direction to carry out their mandate. The Department supported a forum where members of the co-management boards meet regularly to discuss matters of common interest. The Department's support through this forum over the last five years has resulted in strategic plans, shared best practices, orientation manuals, and training initiatives. In addition, we found that the Department provided some supplementary funding to boards to adjust for increased workloads.
- **4.39 Land use plans.** Land use plans are important for developing effective, predictable, and consistent regulatory systems. They define where and under what conditions resource development activities may take place and what land will be set aside from development to protect the environment or important cultural territory.

### Exhibit 4.6 In the Northwest Territories, co-management boards make decisions on development

The Mackenzie Valley Resource Management Act came into force in 1998 as a result of the Gwich'in and Sahtu comprehensive land claim agreements. The Act created comanagement boards for the Gwich'in and Sahtu settlement areas, and established the Mackenzie Valley Land and Water Board to issue land use permits and water licences in areas where claims are unsettled.

Under the Inuvialuit Final Agreement, although the institutions differ, the processes of the regulatory system in the Inuvialuit Settlement Region are similar to those in the Act, but they are governed by different statutes. Contrary to those in the Mackenzie Valley, the co-management bodies that carry out these processes are not legislative bodies but they do have similar decision-making powers.

Land claims include provisions for 18 co-management boards with responsibilities including issuing development approvals, land use planning, renewable resources, and environmental impact review. These boards include members nominated by the Aboriginal community, the Government of the Northwest Territories, and the Government of Canada.

- 4.40 The requirement for land use planning derives from CLCAs or interim agreements reached during the negotiation process. In the Inuvialuit Settlement Region and the Tlicho territory, land use planning is done primarily by the community.
- 4.41 In other areas with settled land claims, land use planning involves the participation of community, territorial, and federal representatives. INAC's role is to support the completion of land use plans by providing advice, expertise, and funding to the planning boards; to review and comment on draft land use plans; and to advise the Minister on their approval. We expected that the Department had done this for land use plans where warranted, as per the Department of Indian Affairs and Northern Development Act, the Mackenzie Valley Resource Management Act, and settled CLCAs.
- 4.42 INAC supported the development of the Gwich'in Land Use Plan, approved in 2003. The Department is currently supporting the development of a land use plan in the Sahtu region. It provided ongoing advice on how to balance conservation and development; technical assistance to ensure that the Plan would be comprehensive, integrated, balanced, and reflect the roles and responsibilities of all participants; and funding for land use planning.
- **4.43** We found that, in regions with CLCAs, INAC had enabled systems and structures that support land use plans. This contributes to an adequate regulatory system to manage land and water resources and to protect the environment.

# Key components are missing from the environmental regulatory system in areas without settled claims

- 4.44 Regions without comprehensive land claim agreements do not have regional co-management boards, and therefore there is uncertainty about Aboriginal title to the land, how it may be used, and who should be consulted to make decisions about development. Some interim agreements are in place to address certain environmental issues and give Aboriginal groups input into decisions while negotiations on land claims continue; however, without regional co-management boards, the system is incomplete.
- 4.45 Community representation in development decision making. Areas of the Mackenzie Valley where claims are still unsettled do not have their own regional co-management boards. In these areas, the Mackenzie Valley Land and Water Board (MVLWB) is responsible for issuing land use permits and water licences. Currently, only four seats of the 20-member Board are reserved for representatives from

unsettled areas. Community leaders from these areas have indicated that this process does not provide adequate representation for their communities. Even though two groups have negotiated interim agreements with the federal government in order to have input into the permit screening process, the MVLWB still makes the final decisions in these areas, covering almost 30 percent of the NWT—an area roughly the size of Newfoundland and Labrador.

- 4.46 Development permits. Staff at the MVLWB told us that the review period for development permits can be longer in areas with unsettled claims because those communities, not feeling represented in the existing process, try to influence decision making through other means. They do this by requesting additional environmental assessments and consultation, which may delay approvals. For example, one Akaitcho First Nation requested referral of a logging application for environmental assessment and subsequently took the matter to court. After approximately two years, the permit was denied.
- 4.47 Another example relates to an oil and gas development application in the Dehcho region. In the absence of a regional co-management board, this application was reviewed by the MVLWB and subsequently approved. The Dehcho then took the matter to court, arguing that the Crown had not sufficiently consulted them when it approved the permit. After almost two years, the courts upheld the First Nation's application and set aside the permits.
- 4.48 We compared the number of applications for development permits referred for additional consultation in the regions with unsettled claims to that in the Tlicho territory, which has a settled land claim. We found that, since 2005, dozens of applications had been referred to the Crown for additional consultation in regions with unsettled claims, while we were told that none had been referred in the Tlicho territory.
- 4.49 Land use plans. We noted a lack of specific mechanisms for developing land use plans in areas without settled land claims. This has complicated the environmental assessment process and has led to ad hoc planning. For example, INAC committed in 2007 to developing a balanced Land and Resource Management Plan for the Upper Thelon Area as a result of an environmental assessment. Progress on this plan has been slow due to impasses related to disputes over control of territory in areas of unsettled land claims. In the Dehcho territory, the lack of requirements for land use plans has been partly addressed by an Interim Measures Agreement.

- 4.50 Without a formal land use plan, the MVLWB is obliged to make development decisions on a case-by-case basis. Decisions related to project approvals may therefore take longer because it has not been determined where different types of development should take place and what conditions should be applied.
- **4.51** Recommendation. Indian and Northern Affairs Canada should work with Aboriginal groups and the Government of the Northwest Territories to conclude agreements for regions without settled claims that meet the needs of all parties. These agreements should contain provisions and clear processes for developing land use plans and for providing effective representation on bodies that make decisions on resource management and development.

The Department's response. Agreed. The Department will continue to work with willing partners to settle land claim agreements. The Department considers land use planning as an important tool for balancing investment and development opportunities with environmental stewardship and community aspirations.

The Mackenzie Valley Resource Management Act proposed legislation for planning and assessment in Nunavut, and most northern comprehensive land claim agreements specify a clear requirement for land use plans. The need for improved land use planning as a fundamental component of the northern regulatory regime has been identified in a number of reviews and studies over the past few years, including most recently the Road To Improvement report by Mr. Neil McCrank. The Department is committed to working with First Nations and Inuit in the advancement of land use plans pursuant to land claim agreements, legislation, and policy direction. The framework for land use planning will continue to be within the broader structure created by the Mackenzie Valley Resource Management Act.

# The federal government is not meeting its responsibilities for cumulative impact monitoring

4.52 Environmental monitoring provides important information for decision making on development. This is particularly important in the NWT due to the fragile ecosystem, the profound changes taking place as a result of climate change, and the long-range transport of air contaminants. Whether or not a region has a CLCA, INAC and Environment Canada both have responsibilities for monitoring cumulative impact (Exhibit 4.7).

### Exhibit 4.7 Traditional knowledge is an important part of cumulative impact monitoring

- The term "cumulative impact" refers to changes to the environment caused by an
  activity combined with changes caused by other past, present, and future activities.
   To understand how development may contribute to cumulative impact, scientists
  need baseline environmental conditions against which to monitor changes so that
  they can predict and assess how proposed development will affect the environment.
- Traditional knowledge refers to the knowledge and understanding of the
  environment that is passed from one generation to the next. Traditional knowledge
  can improve resource management decisions. A community-based program to
  monitor cumulative impact would use both scientific and traditional knowledge.
- 4.53 Under the Mackenzie Valley Resource Management Act and specific CLCAs, INAC is responsible for monitoring cumulative impact in the NWT. The Minister of Indian and Northern Affairs Canada is responsible for collecting and analyzing scientific and traditional knowledge to monitor the cumulative impact that land and water use and deposits of waste have on the environment. The Minister may also designate an alternative responsible authority to fulfill these responsibilities but has not done so to date.
- 4.54 Environment Canada currently conducts limited monitoring of weather, climate, water, stratospheric ozone, and air quality throughout the North, including the NWT, under its national mandate derived from the Canadian Environmental Protection Act and the Department of the Environment Act. Some of these national programs provide data for assessing cumulative impact. Environment Canada is responsible for providing technical advice for cumulative impact monitoring initiatives led by INAC. In 1998, Environment Canada began to work with partners to deliver the Northern Ecosystem Initiative, and in 1999, the Department committed to funding and implementing the Cumulative Effects Assessment and Management Framework for the NWT in collaboration with INAC.
- 4.55 Cumulative impact monitoring in the NWT is intended to provide co-management boards with environmental information to support informed decision making on development approvals and resource management. We expected that INAC had established needs and priorities for monitoring cumulative impact and had implemented a plan to fulfill its responsibilities. We also expected that Environment Canada had supported INAC in these responsibilities.

- Indian and Northern Affairs Canada. In 2005, INAC conducted an environmental audit as required by the MVRMA and reported that, despite years of planning, a program to monitor cumulative impact had not been implemented, as required under the Act and settled land claims. The report identified the lack of long-term, multi-year funding as a limiting factor.
- 4.57 We found that INAC had made little progress since 2005. In 2009, it developed a draft operational plan that identified tasks for a program to monitor cumulative impact and began to increase spending in this area. However, the draft plan does not identify specific monitoring requirements, the resources needed to carry out the program, or timelines for key milestones. We found that, 11 years after receiving the mandate to do so, INAC had not yet put in place a program to monitor cumulative impact. Decision makers therefore have incomplete or limited data on environmental baseline conditions and the cumulative impact of development decisions.
- Environment Canada. Working with multiple partners, in 1998, Environment Canada established the Northern Ecosystem Initiative (NEI). Among other things, this initiative was aimed at developing a monitoring network and tools to assess and manage cumulative impact linked with resource development in selected communities in the NWT and across the North. The Department reported that the NEI developed and tested indicators of cumulative impact and created computer modelling tools that could eventually be used across northern regions. This initiative ended in 2008. Although the Department informed us that it is working toward a new priority ecosystem management framework to guide its investments in ecosystems across Canada, it has not yet committed to any replacement initiative for the North.
- 4.59 In 1999, the ministers of Indian and Northern Affairs Canada and Environment Canada committed to provide adequate resources to support the development and implementation of a Cumulative Effects Assessment and Management Framework for the NWT. The framework included, among other things, a provision to better coordinate data collection among federal, territorial, and Aboriginal governments and industries, consistent with commitments made under programs to monitor cumulative impact. Although Environment Canada continues to track progress on this initiative, funding aimed at supporting its development and implementation ended in 2007 and the framework has not been implemented.

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- **4.60** The lack of progress on the implementation of a cumulative impact monitoring program in the NWT limits the ability of co-management boards to understand baseline conditions, track and monitor environmental change, and ultimately identify the effect of development on the environment.
- 4.61 Recommendation. Indian and Northern Affairs Canada (INAC) should develop and carry out a program to monitor cumulative impact in the Northwest Territories (NWT). In doing so, INAC should work with Aboriginal groups to identify the information requirements of the co-management boards in the NWT for cumulative impact monitoring and provide a means of sharing this information among the federal and territorial governments, co-management boards, and Aboriginal communities.

The Department's response. Agreed. As required in land claim agreements, a Northwest Territories Cumulative Impact Monitoring Program was initiated in 1999. Ad hoc and short-term funding has meant that it has not been possible to completely deliver on its mandate and objectives. Ongoing funding was provided in 2008 to expand the scope of the program, and INAC, with its partners, will determine needs and priorities for environmental monitoring in order to fulfill its obligations and commitments in this regard. Should additional funding become available, further investments in the Northwest Territories Cumulative Impact Monitoring Program will be considered.

**4.62** Recommendation. Environment Canada should support Indian and Northern Affairs Canada (INAC) in identifying the information requirements for cumulative impact monitoring, and for planning and implementing programs to monitor cumulative impact in the Northwest Territories (NWT).

The Department's response. Agreed. Environment Canada supports the needs and requirements for cumulative impact monitoring in the NWT and acknowledges INAC's lead.

In light of this recommendation and the recommendations contained in the Joint Review Panel (JRP) Report for the Mackenzie Gas Project (MGP) (released December 2009), Environment Canada will work along with INAC and other government departments to develop the Government Response to the JRP Report that will lay out appropriate actions and in doing so will address the findings and recommendations of the Office of the Auditor General.

### Indian and Northern Affairs Canada has not determined levels of compliance

- 4.63 In 2009, INAC was responsible for enforcing about 2,400 active permits and licences in the NWT. The Department's target for the 2008–09 fiscal year was to inspect 50 to 60 percent of its annual caseload. We found that the Department had carried out about 300 inspections, representing 13 percent of its caseload.
- 4.64 Included in these enforcement responsibilities are land and water permits and licences issued by co-management boards. These generally place terms and conditions on the developer's activities to protect the environment. INAC is responsible for enforcing these terms and conditions through site inspections during and after the activities, according to its Compliance and Enforcement Policy and the MVRMA. We expected that the Department had adequately inspected and enforced the environmental provisions in land use permits and water licences.
- 4.65 Since the mid-1990s, INAC has been using a risk-based system to prioritize its inspections. Although the Department has procedures in place to plan and track inspections and follow up on violations, it has not established what rate of compliance is sufficient and how many inspections and other enforcement actions it needs to conduct to achieve those rates. Nor does it report the extent to which inspected permit and licence holders are compliant.
- **4.66** Recommendation. Indian and Northern Affairs Canada should determine the level of compliance necessary and determine the appropriate level of site inspection and other enforcement actions required to achieve it. The Department should also provide information to co-management boards on rates of compliance with terms and conditions of land and water permits and licences.

The Department's response. Agreed. In order to ensure that existing resources are utilized in the most efficient way possible, the Department uses a risk-based approach to prioritize enforcement. The level of compliance, as it applies to legislation within its mandate, will be defined by the Department. The Department will then confirm and make the necessary changes to systems and procedures to ensure that appropriate inspections are being conducted on land and water authorizations and then communicate these changes to the comanagement boards.

# Skills training and economic development

- 4.67 Lack of capacity has been consistently identified as a principal barrier to improving economic conditions in Aboriginal communities. Aboriginal communities have lower rates of participation in the labour force and significantly lower average incomes as compared with the national average. Barriers to employment include a lack of basic education and job skills.
- 4.68 Our Office has also conducted an audit of education in the Northwest Territories (NWT), which will be reported to the NWT Legislative Assembly in May 2010. The audit looked at how the Department of Education, Culture and Employment has planned, monitored, and reported on the education and training programs that are designed to increase opportunities for NWT students to participate fully in the social and economic development of the Northwest Territories.
- 4.69 Providing services that meet the needs of the NWT is a challenge because of the Territory's many unique characteristics. The NWT consists of 33 mostly small and remote geographic communities spread over a land mass roughly the size of Alberta and Saskatchewan combined. Aside from the capital Yellowknife, communities range in size from about 50 to 3,800 people, and 27 of them have a population of less than 1,000. The two major highways reach fewer than half the communities; many rural and remote communities can be accessed only by plane, boat, or winter ice roads.
- 4.70 The Department of Indian Affairs and Northern Development Act mandates that the Minister is responsible for "undertaking, promoting, and recommending policies and programs for the further economic and political development of Yukon, the Northwest Territories and Nunavut." The Department of Human Resources and Skills Development Act mandates that the Minister may establish and implement programs designed to support projects or other activities that contribute to the development of the human resources of Canada and the skills of Canadians. In this audit, we looked at federal support for skills training and economic development in the NWT.
- 4.71 We expected that Human Resources and Skills Development Canada (HRSDC) would have developed and implemented programs and initiatives that supported skills training for Aboriginal peoples in the NWT and assessed the effectiveness of these programs. We also expected that Indian and Northern Affairs Canada (INAC) would have developed and implemented programs and initiatives that supported economic development for Aboriginal communities in the NWT and assessed and reported on the effectiveness of these programs. We reviewed documentation and files, including internal

audit and evaluation reports on economic development programs within INAC. We also interviewed federal officials, and industry and Aboriginal representatives from several regions.

4.72 We asked HRSDC to identify programs that support skills training in the NWT and we asked INAC to identify programs that support local economic development. We also looked at benefits plans, which fall under the mandate of INAC and are intended to help ensure that individuals or groups have access to economic, training, and employment opportunities from oil and gas development on their lands. Exhibits 4.8 and 4.9 summarize the key programs we examined. We did not assess programs delivered by the Government of the Northwest Territories.

Exhibit 4.8 Two national programs support skills training for Aboriginal peoples

Program	Program Description—Human Resources and Skills Development Canada
Aboriginal Skills and Employment Partnership (ASEP)	Promotes increased participation of Aboriginal peoples in major economic developments through a collaborative approach of Aboriginal, private sector, and provincial/territorial partnerships. The overall objective is sustainable employment for Aboriginal peoples in major economic industries, leading to lasting benefits for communities, families, and individuals.
Aboriginal Human Resources Development Strategy (AHRDS)	Funds Aboriginal organizations throughout Canada to design and deliver programs to help prepare Aboriginal peoples for obtaining meaningful and sustainable employment.

Exhibit 4.9 Four programs are aimed at economic development

Program	Program Description—Indian and Northern Affairs Canada*
Community Economic Development Program (CEDP)	Provides financial support to First Nation and Inuit communities for economic development initiatives, including planning and capacity development initiatives, proposal development, leveraging of financial resources and for carrying out various other economic development activities.
Community Service Support Program (CSSP)	Funds the implementation of national and regional plans to deliver support services to First Nation community economic development organizations. The services are intended to increase the economic capacity of community organizations to carry out one-time projects and ongoing activities related to economic development.
Community Economic Opportunities Program (CEOP)	Provides project-based, proposal driven support to those First Nation and Inuit communities that have identified economic development opportunities. The program is expected to lead to community economic benefits as a result of planning and negotiating activities, research and advocacy initiatives, and economic infrastructure projects.
Aboriginal Business Development Canada	Supports the establishment and growth of Aboriginal-owned and controlled businesses and works with Aboriginal clients across Canada, through financial contributions for activities including business planning, support, start-ups and acquisitions, expansion, and marketing.

<sup>\*</sup>The territorial component of all of these programs was transferred to the new Canadian Northern Economic Development Agency in August 2009, during the course of our audit.

# Human Resources and Skills Development Canada does not yet assess the long-term impact of skills training programs

- 4.73 HRSDC identified several programs aimed at supporting skills training in the NWT through various means. We focused on the two programs aimed at supporting skills training for Aboriginal peoples within the NWT (Exhibit 4.8). We looked at whether HRSDC had identified the needs of the NWT in the implementation of these programs and whether the Department knew if the programs were meeting their objectives.
- 4.74 HRSDC also has other programs related to labour market development, which involve transfer payments to provincial and territorial governments, including the Northwest Territories. We did not audit these because we focused on programs specific to Aboriginal peoples and delivered by the federal government. Similarly, INAC also has a program aimed at providing skills training to Aboriginal communities—the Strategic Investments in Northern Economic Development program. We did not examine this program since it was being restructured at the time of our audit, with a view to being transferred to the new Canadian Northern Economic Development Agency.
- 4.75 The Aboriginal Human Resources Development Strategy (AHRDS) and the Aboriginal Skills and Employment Partnership (ASEP) are both national programs that support skills training initiatives in the NWT. Through AHRDS, HRSDC provides funding to Aboriginal organizations, who decide for themselves what training needs should be addressed. AHRDS delivered funding in this manner to eight regional organizations in the NWT between 2004 and 2009. ASEP seeks proposals and allocates funding for projects based on proposals received. Since 2003, ASEP funded five proposals for skills training in the mining, oil and gas, and construction sectors. This program was well received by communities we interviewed.
- 4.76 We found that HRSDC has established clear objectives and targets and that the Department reports on short-term objectives for both of the programs we examined, including the number of individuals participating in skills training initiatives and the number of people employed. However, we also found that the Department has not assessed these programs' progress toward their longer-term objective and outcome regarding sustainable employment for Aboriginal peoples. This is important in order to understand if these programs are contributing to a positive long-term impact and if Aboriginal peoples are obtaining the skills needed for sustainable employment.

- 4.77 HRSDC informed us that it was waiting for the completion of the first five-year period of the ASEP program, which ended in March 2009, to conduct such an assessment and that it intends to assess the long-term impact of both programs, by March 2012 for ASEP and by March 2014 for AHRDS.
- **4.78 Recommendation.** Human Resources and Skills Development Canada should work with Aboriginal groups and the Government of the Northwest Territories to assess the impact of their Aboriginal skills training programs and ensure that they are leading to improvements in the skills and employment prospects of Aboriginal peoples over time.

The Department's response. Agreed. As noted in paragraph 4.75, the Department provides funding to Aboriginal organizations who decide for themselves what training needs should be addressed. This Government of Canada policy decision acknowledges that Aboriginal communities in the North and across Canada are best placed to develop and deliver programs and services to meet their unique needs and priorities, including those identified under their land claim settlements. It is also important to note that the Government of Canada has taken explicit policy decisions to transfer responsibility for the development and delivery of labour market training programs under Employment Insurance to provinces and territories that are better positioned to address their priorities and needs. As noted, the Department is measuring immediate employment outcomes and will continue to work with Aboriginal communities and other partners to assess longer-term impacts and ensure that programs are leading to improvements over time.

# Economic development programs lack a strategic focus and do not measure performance

- **4.79** INAC identified four programs aimed at supporting economic development in the NWT (Exhibit 4.9). We assessed whether these programs adequately supported economic development in communities.
- 4.80 We found that INAC's economic development programs do not have clear objectives. Instead, the programs share a number of broad objectives that are both general and vague. For example, two of these programs share objectives including "more investment in communities" and "more, larger and stronger community businesses." Without clearly stated objectives, measurement and tracking of the performance of programs are not possible.
- **4.81** We also found that INAC did not monitor its programs' performance or review information reported by the recipients of

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funding. With the exception of some specific measures for tracking activities for the Aboriginal Business Development Canada program, INAC does not track the performance of these programs, individually or collectively, in a way that informs whether they actually contribute to Aboriginal economic development in the NWT. As a result, the Department cannot determine whether its programs have achieved their intended results or adequately supported the local economic development of Aboriginal communities in the NWT.

- 4.82 Most of INAC's economic development programming in the NWT is based on a strategy released in 1989. This strategy had not been updated to reflect the emerging needs of Aboriginal communities. the changing economy, or the impact of existing programs until 2009. Instead, individual economic development programs evolved in response to a variety of audits, evaluations, and stakeholder input but without alignment with overall objectives or with each other. In April 2009, the Department conducted an evaluation that considered the continuing need for, possible duplication of, or gaps in programming.
- 4.83 In 2009, the federal government released its Framework for Aboriginal Economic Development, intended to replace the 1989 strategy. Officials told us that the Framework is a first step in redefining and implementing a government-wide and nationwide approach to Aboriginal economic development. However, northerners we interviewed were concerned that the Framework may not address the unique needs of Aboriginal groups in the North. The Framework has yet to result in any changes to economic development programming in the NWT.
- 4.84 During our audit, the federal government established the Canadian Northern Economic Development Agency and transferred to it the delivery of INAC's economic development programs for the NWT. Some of the new agency's priorities are to coordinate and deliver existing programs and services, measure results of economic development programming in the NWT, and tailor programs and activities to the needs of the North. By the end of our audit, it was too early to determine how the Agency will affect economic development in the North or how it will align with the new Federal Framework for Aboriginal Economic Development.
- 4.85 Recommendation. The Canadian Northern Economic Development Agency (CanNor) should clarify the objectives of its economic development programs in the Northwest Territories and develop a strategic approach to delivering federal programming that includes the identification of needs and gaps, clear and coordinated

objectives, effective performance measurement, and consistent reporting on results.

The Agency's response. Agreed. While CanNor was not included in the scope of the audit, the Agency accepts the responsibility to implement the recommendation by virtue of the program responsibilities transferred to it by Indian and Northern Affairs Canada (INAC) in August 2009 and CanNor's northern economic development mission. CanNor's implementation of the recommendation will focus on meeting local needs and will commence, on a priority basis, building upon existing progress and resulting from review activity already undertaken. This process will involve further consultations with key stakeholders and program clientele, and operate in close collaboration with INAC in the context of the recently announced new Federal Framework for Aboriginal Economic Development.

### Indian and Northern Affairs Canada does not track and monitor benefits plans

- 4.86 Under the Canada Oil and Gas Operations Act, industry must develop benefits plans when undertaking oil and gas activities in the NWT. These plans are intended to lead toward training and employment opportunities. They are submitted by industry to INAC and outline the strategies and principles the developer will use to ensure that the local community can benefit from proposed projects through, for example, increased employment or participation in the supply of goods or services. The plans may also include training, employment, and other provisions, making them potentially significant to Aboriginal individuals, businesses, and communities. The Minister of Indian and Northern Affairs Canada must approve or waive the requirement for a benefits plan before a development project can begin. We expected that INAC would have developed a process for approving these plans.
- 4.87 The Department has developed guidelines for approving benefits plans and provides these requirements to developers. These guidelines set out the information that developers must include in their plans and what they must report annually. We analyzed a sample of benefits plans and annual reports approved since 2005 to determine if they contained all the required information.
- 4.88 We found that most of the plans INAC approved did not include all the requirements listed in the guidelines. We also found that most of the annual reports did not include all of the information required. Moreover, the Department had not tracked whether industry had carried out its plans. Without an approval process for benefits plans

that includes reviewing what is being reported, or tracking the impact of implementing these plans, INAC does not know the extent to which development projects are benefiting communities through access to training and employment opportunities.

**4.89** Recommendation. Indian and Northern Affairs Canada should ensure that benefits plans related to development projects under the Canada Oil and Gas Operations Act meet the requirements set out in the Department's guidelines before approving projects, and that annual reports include information on how the plans meet these requirements. The Department should also track and measure the training and employment opportunities achieved through benefits plans.

The Department's response. Agreed. As part of overall efforts to modernize its approach to resource management issues, the Department is addressing issues related to benefits plans and will intensify its efforts, working with other parties, to meet the Department's guidelines, and track and measure the training and employment opportunities achieved.

### Conclusion

- **4.90** The departments we audited are mandated to put in place key measures to support sustainable and balanced development in the Northwest Territories. These key measures include land claim and self-government agreements, an environmental regulatory system, and support for skills training and economic development.
- 4.91 The Government of Canada, as represented by Indian and Northern Affairs Canada, the Aboriginal groups, and the Government of the Northwest Territories, settled four comprehensive land claim agreements (CLCAs) in the NWT, one of which includes a self-government agreement (SGA). Four CLCAs and ten SGAs remain under negotiation. Our audit found that INAC has made constructive efforts to clarify the land, resource, and governance rights of claimant groups in the NWT in its negotiations of CLCAs and SGAs. We also noted, however, that delays in funding to First Nations can impede their effective participation in negotiating SGAs.
- 4.92 We concluded that where CLCAs exist, the environmental regulatory system is mostly complete. Co-management boards have been established and INAC has made progress in supporting them to develop land use plans. Where land claims are not settled, we concluded that INAC has not put in place an adequate regulatory system, communities may not be adequately represented, and development decisions may take longer.

- In all regions of the NWT, our audit found that INAC has not met its responsibility to monitor cumulative impact. Nor has Environment Canada met its commitments to support INAC in these activities. We also found that INAC lacks information on compliance with permits. These are important obligations, critical to protecting the fragile environment of the NWT. Our audit concluded that the federal government has been unsuccessful in establishing a regulatory system that satisfies the needs of all parties.
- Support for skills training and economic development in the NWT is key to developing capacity in northern communities in order for them to benefit from the opportunities provided by development. Human Resources and Skills Development Canada's (HRSDC) programs support skills training in the NWT. However, our audit found that HRSDC does not assess whether these programs are achieving their longer-term objective and outcome regarding sustainable employment for Aboriginal peoples in the NWT. We also found that INAC economic development program objectives are vague and the Department does not measure the results of its programs. We concluded that INAC and HRSDC do not know the extent to which their skills training and local economic development initiatives are building the capacity of Aboriginal peoples in the NWT.
- 4.95 Overall, we concluded that Indian and Northern Affairs Canada and Environment Canada have not adequately implemented key measures designed to prepare for sustainable and balanced development in the Northwest Territories. While progress has been made, key measures remain to be adequately implemented, including the establishment of an environmental regulatory system throughout the NWT and economic development programs that address the Territory's unique needs. Furthermore, HRSDC has yet to assess the longer-term impact of its skills training programs regarding sustainable employment of Aboriginal peoples in the NWT.

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### About the Audit

All the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for its audits, it also draws upon the standards and practices of other disciplines.

### **Objective**

The overall objective of our audit was to determine whether Indian and Northern Affairs Canada (INAC), Environment Canada, and Human Resources and Skills Development Canada (HRSDC) have adequately implemented key measures to prepare for sustainable and balanced development in the Northwest Territories.

Our sub-objectives were to determine whether

- INAC has made constructive efforts to clarify the land, resource, and governance rights of Aboriginal claimant groups in the Northwest Territories according to the Comprehensive Land Claims Policy (1986) and the Inherent Right of Self-Government Policy (1995);
- INAC and Environment Canada have established and carried out an adequate regulatory system to manage land and water resources and protect the environment in the Northwest Territories; and
- INAC and HRSDC can show that they have adequately supported skills training and local economic development initiatives designed to build the capacity of Aboriginal peoples and residents in the Northwest Territories.

### Scope and approach

While many federal and other entities have responsibilities and mandates regarding the development of Canada's North, the entities included in this audit are Indian and Northern Affairs Canada, Environment Canada, and Human Resources and Skills Development Canada. In August 2009, the Canadian Northern Economic Development Agency was created, and the control and supervision of the Northern Economic Development Branch, which was responsible for the economic development programs included in this audit, was transferred from INAC to the Agency.

Although we included it in the survey phase of our audit, we did not conduct an in-depth audit of INAC's Strategic Investments in Northern Economic Development (SINED) program. This was because the Department was in the process of restructuring SINED during our audit in order to address recommendations made by its internal audit, and we were informed of plans to transfer the program to a new organization in the coming months.

During our studit, we met numerous stakeholders outside the federal government. These included officials in the Government of the Northwest Territories; community leaders in many of the Aboriginal communities in the NWT, and representatives from co-management boards, including the Mickettae Valley Land and Water Board. While not included in the scope of our audit, they give us their perspectives on federal activities and processes.

### Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
Aboriginal governance and o	control of land and resources
We expected Indian and Northern Affairs Canada (INAC) to have	Comprehensive Land Claims Policy, INAC, 1986
made constructive efforts to reach agreement on the land and resource rights of Aboriginal claimant groups.	Department of Indian Affairs and Northern Development Act, section 5
We expected INAC to have made constructive efforts to reach agreement on how Aboriginal claimant groups will exercise self-government.	The Government of Canada's Approach to Implementation of the Inherent Right and Negotiation of Aboriginal Self-Government, INAC, 1995
	Department of Indian Affairs and Northern Development Act, section 5
Environmental r	egulatory system
We expected INAC to have made satisfactory progress to address	Mackenzie Valley Resource Management Act
the weaknesses in the regulatory system consistent with commitments made further to previous audits.	• Department of Indian Affairs and Northern Development Act, section 6(1)
	• 2005 April Report of the Auditor General, Chapter 6, Indian and Northern Affairs Canada—Development of Non-Renewable Resources in the Northwest Territories—responses to recommendations 6.47, 6.52, 6.59, 6.60, 6.76, 6.77, 6.83
	INAC response to the NWT Environmental Audit, recommendation 38, INAC, 2005
We expected INAC to have supported the development and approval of land use plans.	Department of Indian Affairs and Northern Development Act, section 6(1)
	Mackenzie Valley Resource Management Act, sections 11, 12, 15, 26, 40, 43, 90
	Comprehensive Land Claim Agreements for Gwich'in, Sahtu Dene and Metis, and Tlicho
We expected INAC and Environment Canada to have established	Mackenzie Valley Resource Management Act, section 146
needs and priorities for environmental monitoring and implemented a plan to fulfill their obligations in this regard.	INAC response to the NWT Environmental Audit, recommendations 49, 50, 12, INAC, 2005
We expected INAC to have provided adequate enforcement of environmental provisions of land use permits and water licences.	Mackenzie Valley Resource Management Act, sections 84, 85, 86
	INAC response to the NWT Environmental Audit, recommendation 12, INAC, 2005
Skills training and e	conomic development
We expected INAC and Human Resources and Skills Development Canada (HRSDC) to have identified training and	Department of Indian Affairs and Northern Development Act, section 5(6)
skills development needs in the NWT and to have provided programs and initiatives for Aboriginal peoples and residents.	Human Resources and Skills Development Act, sections 7 and 5(2)
	Comprehensive Land Claim Agreements for Gwich'in, Sahtu Dene and Metis, and Tlicho
	The Western Arctic Claim—Inuvialuit Final Agreement

Criteria	Sources	
Will rate ted INAC to have developed and carried out policies, programs, and/or initiatives that adequately support economic	• Department of Indian Affairs and Northern Development A section 5(6)	
development in the NWT.	<ul> <li>Human Resources and Skills Development Act, sections 7 and 5(2)</li> </ul>	
	Comprehensive Land Claim Agreements for Gwich'in, Sahtu Dene and Metis, and Tlicho	
	The Western Arctic Claim—Inuvialuit Final Agreement	
We expected INAC and HRSDC to have assessed and reported on the effectiveness of programs and initiatives for capacity development and economic opportunities.	Preparing and Using Results-based Management and Accountability Frameworks, sections 1.1, 1.3, Treasury Board of Canada Secretariat, 2005	
	<ul> <li>Results for Canadians: A Management Framework for the Government of Canada, Treasury Board of Canada Secretariat, 2000</li> </ul>	
	Comprehensive Land Claim Agreements for Gwich'in, Sahtu Dene and Métis, and Tlicho	
	The Western Arctic Claim—Inuvialuit Final Agreement	
We expected INAC to be fulfilling its requirement to approve benefits plans that provide access to training and employment opportunities.	Canada Oil and Gas Operations Act, section 5	

Management reviewed and accepted the suitability of the criteria used in the audit.

### Audit work completed

This audit addressed programs and activities of the selected federal departments between 2004 and 2009. Certain tests relied on information dating back as far as 2000. Audit work for this chapter was substantially completed on 20 November 2009.

### Audit team

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## **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation Response

### Aboriginal governance and control of land and resources

4.28 Indian and Northern Affairs
Canada should identify and implement
mechanisms, such as multi-year funding
for contribution agreements, to ensure
timely funding of the activities of
Aboriginal communities regarding
negotiations on self-government.
(4.25–4.27)

Agreed. The Department acknowledges the requirement for mechanisms such as multi-year funding for contribution agreements and will be implementing the new Transfer Payment Policy, which allows for multi-year funding to recipients, targeted for 31 March 2011.

### **Environmental regulatory system**

4.51 Indian and Northern Affairs
Canada should work with Aboriginal
groups and the Government of the
Northwest Territories to conclude
agreements for regions without settled
claims that meet the needs of all parties.
These agreements should contain
provisions and clear processes for
developing land use plans and for
providing effective representation on
bodies that make decisions on resource
management and development. (4.44–
4.50)

Agreed. The Department will continue to work with willing partners to settle land claim agreements. The Department considers land use planning as an important tool for balancing investment and development opportunities with environmental stewardship and community aspirations.

The Mackenzie Valley Resource Management Act proposed legislation for planning and assessment in Nunavut, and most northern comprehensive land claims agreements specify a clear requirement for land use plans. The need for improved land use planning as a fundamental component of the northern regulatory regime has been identified in a number of reviews and studies over the past few years, including most recently the Road To Improvement report by Mr. Neil McCrank. The Department is committed to working with First Nations and Inuit in the advancement of land use plans pursuant to land claim agreements, legislation, and policy direction. The framework for land use planning will continue to be within the broader structure created by the Mackenzie Valley Resource Management Act.

#### Recommendation

4.61 Indian and Northern Affairs
Canada (INAC) should develop and
carry out a program to monitor
cumulative impact in the Northwest
Territories (NWT). In doing so, INAC
should work with Aboriginal groups to
identify the information requirements
of the co-management boards in the
NWT for cumulative impact
monitoring and provide a means of
sharing this information among the
federal and territorial governments,

Response

Agreed. As required in land claim agreements, a Northwest Territories Cumulative Impact Monitoring Program was initiated in 1999. Ad hoc and short-term funding has meant that it has not been possible to completely deliver on its mandate and objectives. Ongoing funding was provided in 2008 to expand the scope of the program, and INAC, with its partners, will determine needs and priorities for environmental monitoring in order to fulfill its obligations and commitments in this regard. Should additional funding become available, further investments in the Northwest Territories Cumulative Impact Monitoring Program will be considered.

4.62 Environment Canada should support Indian and Northern Affairs Canada (INAC) in identifying the information requirements for cumulative impact monitoring, and for planning and implementing programs to monitor cumulative impact in the Northwest Territories (NWT). (4.52–4.60)

co-management boards, and Aboriginal

communities. (4.52-4.60)

Agreed. Environment Canada supports the needs and requirements for cumulative impact monitoring in the NWT and acknowledges INAC's lead.

In light of this recommendation and the recommendations contained in the Joint Review Panel (JRP) Report for the Mackenzie Gas Project (MGP) (released December 2009), Environment Canada will work along with INAC and other government departments to develop the Government Response to the JRP Report that will lay out appropriate actions and in doing so will address the findings and recommendations of the Office of the Auditor General.

4.66 Indian and Northern Affairs
Canada should determine the level of
compliance necessary and determine the
appropriate level of site inspection and
other enforcement actions required to
achieve it. The Department should also
provide information to co-management
boards on rates of compliance with
terms and conditions of land and water
permits and licences. (4.63–4.65)

Agreed. In order to ensure that existing resources are utilized in the most efficient way possible, the Department uses a risk-based approach to prioritize enforcement. The level of compliance, as it applies to legislation within its mandate, will be defined by the Department. The Department will then confirm and make the necessary changes to systems and procedures to ensure that appropriate inspections are being conducted on land and water authorizations and then communicate these changes to the commanagement boards.

#### Recommendation

# Response

#### Skills training and economic development

4.78 Human Resources and Skills Development Canada should work with Aboriginal groups and the Government of the Northwest Territories to assess the impact of their Aboriginal skills training programs and ensure that they are leading to improvements in the skills and employment prospects of Aboriginal peoples over time.

(4.73–4.77)

Agreed. As noted in paragraph 4.75, the Department provides funding to Aboriginal organizations who decide for themselves what training needs should be addressed. This Government of Canada policy decision acknowledges that Aboriginal communities in the North and across Canada are best placed to develop and deliver programs and services to meet their unique needs and priorities, including those identified under their land claim settlements. It is also important to note that the Government of Canada has taken explicit policy decisions to transfer responsibility for the development and delivery of labour market training programs under Employment Insurance to provinces and territories that are better positioned to address their priorities and needs. As noted, the Department is measuring immediate employment outcomes and will continue to work with Aboriginal communities and other partners to assess longer-term impacts and ensure that programs are leading to improvements over time.

4.85 The Canadian Northern
Economic Development Agency
(CanNor) should clarify the objectives
of its economic development programs
in the Northwest Territories and
develop a strategic approach to
delivering federal programming that
includes the identification of needs and
gaps, clear and coordinated objectives,
effective performance measurement,
and consistent reporting on results.
(4.79–4.84)

Agreed. While CanNor was not included in the scope of the audit, the Agency accepts the responsibility to implement the recommendation by virtue of the program responsibilities transferred to it by Indian and Northern Affairs Canada (INAC) in August 2009 and CanNor's northern economic development mission. CanNor's implementation of the recommendation will focus on meeting local needs and will commence, on a priority basis, building upon existing progress and resulting from review activity already undertaken. This process will involve further consultations with key stakeholders and program clientele, and operate in close collaboration with INAC in the context of the recently announced new Federal Framework for Aboriginal Economic Development.

#### Recommendation

4.89 Indian and Northern Affairs Canada (INAC) should ensure that benefits plans related to development projects under the Canada Oil and Gas Operations Act meet the requirements set out in the Department's guidelines before approving projects, and that annual reports include information on how the plans meet these requirements. The Department should also track and measure the training and employment opportunities achieved through benefits plans. (4.86–4.88)

# Response

Agreed. As part of overall efforts to modernize its approach to resource management issues, the Department is addressing issues related to benefits plans and will intensify its efforts, working with other parties, to meet the Department's guidelines, and track and measure the training and employment opportunities achieved.



# Report of the Auditor General of Canada to the House of Commons—Spring 2010

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Message from the Auditor General of Canada









2010



Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

Chapter 5
Scientific Research—
Agriculture and Agri-Food Canada





# 2010



Report of the Auditor General of Canada

to the House of Commons

**SPRING** 

Chapter 5
Scientific Research—
Agriculture and Agri-Food Canada



The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

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Ce document est également publié en français.

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# Chapter

5

Scientific Research

Agriculture and Agri-Food Canada



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# Scientific Research— Agriculture and Agri-Food Canada

# **Main Points**

## What we examined

Agriculture and Agri-Food Canada has a mandate to provide information, research and technology, and policies and programs to achieve an environmentally sustainable, innovative, and competitive agriculture sector. The Department's work includes supporting productivity and trade, stabilizing farm incomes, and conducting research.

The Research Branch conducts and encourages innovative research to help Canadian producers benefit from new agricultural developments. It employs around 2,300 people, including almost 700 scientific staff and research professionals and 1,000 technical staff, in 19 research centres across the country. This represents over one third of the Department's human resources.

In 2006, the Department introduced its Science and Innovation Strategy, which placed greater emphasis on excellence in the conduct and management of science. Another key goal of the Strategy was to increase collaborative arrangements with other research organizations. The federal government's science strategy was launched in 2007 and the Department's policy framework, Growing Forward, was completed in 2009, increasing the emphasis on innovation as a strategic objective. These policy directions represented significant change for the Research Branch and its stakeholders.

We examined how the Department manages its research activities to achieve its strategic direction and priorities, including how it manages its research projects, its human resources, and its capital assets.

Audit work for this chapter was substantially completed on 22 September 2009.

# Why it's important

The Canadian agriculture and agri-food industry is vital to Canada's economic success; it accounts for about eight percent of the country's gross domestic product and employs one in eight Canadians. However, the agriculture sector faces several challenges, including international competition, pressure to reduce operational costs through advanced production methods and technologies, falling prices for some

commodities, and consumers' heightened concerns about heath, food safety, and the environment.

Agricultural and agri-food research has enabled farmers to increase yields, adapt crops to Canadian conditions, introduce new crops, and improve animal production. The Department's research is aimed at developing new knowledge and new discoveries in order to maintain Canada's ability to produce food, develop new products, and compete internationally, while improving the environmental sustainability of the sector.

# What we found

- Agriculture and Agri-Food Canada has put in place only some of the elements needed to achieve its new strategic direction, in part due to the evolving policy environment. For example, while a strategic action plan for the Science and Innovation Strategy has been approved, it does not identify the human resources, equipment and facilities, and financial resources required; nor was a communication strategy finalized until the end of our audit. As a result, other organizations in the agriculture sector as well as the Department's own scientists have been uncertain about its strategic direction.
- The Research Branch has a history of successful collaboration on individual research projects with scientists in other organizations. The three collaborations we examined—which were more complex, long-term, and involved multiple partners and multiple projects—were not well-managed by the Department. This caused a significant loss of goodwill among a number of important partners.
- To select the research projects it funds, the Research Branch has
  implemented peer and management review processes in order to
  ensure the best investment of public funds. However, there is little
  monitoring of research activities and little feedback to scientists on
  their work. There is little analysis of the research portfolio as a whole.
- While many activities in the Research Branch human resource plan have been implemented, planning for the longer term has not been a focus due, in part, to the evolving policy direction. The Research Branch has not identified how it will staff positions over the longer term or determined those to be staffed in the future and those to be eliminated. However, as part of implementing the strategic action plan, a revised multi-year human resource plan was being developed at the end of our audit.

Although it has undertaken some components of a plan for the renewal and replacement of its capital assets, the Department has not yet identified which locations are critical to maintain and which are no longer needed to achieve its research strategic direction.
 When last assessed in 2005, the condition of the majority of the buildings, based on square metres, was rated as poor (26 percent) or average (45 percent) rather than good or excellent. Also, about 71 percent of laboratory and agricultural equipment had exceeded its service life. However, as part of implementing the strategic action plan, the Research Branch is gathering more recent information from research centres on the condition and use of its assets.

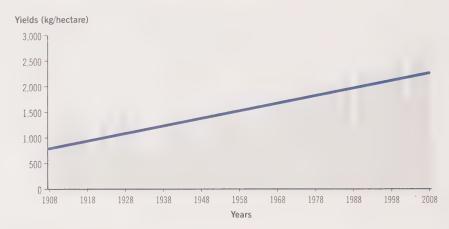
The Department has responded. The Department agrees with all of our recommendations. Its detailed responses follow the recommendations throughout the chapter.



# Introduction

- 5.1 Agriculture and Agri-Food Canada strives to help the agriculture, agri-food, and agri-based products sector maximize its long-term profitability and competitiveness, while respecting the environment. The Department does this by supporting agricultural productivity and trade, stabilizing farm incomes, and conducting research, in order to achieve the three following strategic outcomes for the agriculture, agri-food, and agri-based products sector:
  - environmental sustainability,
  - · competitiveness, and
  - · innovation.
- 5.2 The Department's Research Branch is responsible for delivering the research part of its mandate. In June 2009, the Branch had 2,300 employees—including almost 700 scientific staff and research professionals and about 1,000 technical staff—working in 19 research centres across the country. This represents over one third of the Department's human resources. In the 2008–09 fiscal year, the Branch's expenditures totalled about \$240 million. We noted a significant increase in both operating and capital asset expenditures over the past three years.
- 5.3 Over the years, the Research Branch has had many successes. For example, it has developed more disease-resistant and high-yielding wheat varieties that have helped to increase farmer income and production efficiency. Yield of Canadian wheat has more than doubled over the last century (Exhibit 5.1). It has also helped industry identify the health benefits of food such as cereals, nuts, and berries. The Research Branch has contributed to the safety of our food, the development of environmentally sound farming practices, and the development of bio-products, for example, using industrial soybean and flax crops to produce other products.
- **5.4** According to the Department, its research accounts for about 40 percent of agricultural research conducted in Canada, with universities and the private sector accounting for the remainder.

Exhibit 5.1 Canadian wheat average yields from 1908 to 2008



Source: Agriculture and Agri-Food Canada

#### Unique challenges faced by research organizations

- 5.5 Research organizations face a number of unique challenges, due to the nature of their work. We examined these challenges in the 1999 November Report of the Auditor General, Chapter 22, Attributes of Well Managed Research Organizations. They include
  - setting priorities and articulating end results—this is due in part
    to the uncertainty about where the most valuable discoveries lie
    and to the long time frames before outcomes of research become
    evident;
  - justifying the value of the investment in research;
  - developing new approaches to managing research, such as protecting intellectual property and communicating results in a useful form;
  - using foresight to anticipate future research challenges; and
  - increasingly using collaborative arrangements and partnerships in order to share expertise and cost.

The Department has indicated that an additional challenge exists in the scientific environment, where the objective is to create an environment in which scientists can be innovative. In order to foster commitment among scientists, management frameworks need to be developed through ongoing dialogue with staff.



Research project: Controlling E. coli with Probiotics

E. coli O157:H7 is a bacterial strain that can cause illness. This project has determined that some bacteria can inhibit the production of toxins, suggesting that these probiotics could be used to prevent and treat infection caused by E. coli O157:H7.

Source: Agriculture and Agri-Food Canada



Research Project Combating Wheat Stem

Ug99 is a strain of wheat rust that is spreading across the world and may ultimately reach North America. This project involves identifying the resistant genes that could confer wheat plants' immunity to this disease and therefore protect the Canadian crop.

Source Agriculture and Agri-Food Canada



Research Project: Genetics of Soybean Disease

Soybeans are subject to soybean root rot, a serious plant disease. This project has led to the discovery of genetic factors, paving the way to new resistant soybean varieties.

Source Agriculture and Agri-Food Canada

## Significant change over the years

- 5.6 Federal government funding of agricultural research formally debuted in June 1886 when an Act Respecting Experimental Farm Stations received Royal Assent. The Act authorized the inception of five experimental farms in Nova Scotia, Manitoba, the Northwest Territories, British Columbia, and Ontario (the Central Experimental Farm in Ottawa). Throughout the first half of the 20th century, many additional experimental farms were established. By the end of the 1970s, the Research Branch had more than 50 research locations.
- the years. The 1995 Budget resulted in serious cutbacks in most federal departments, including Agriculture and Agri-Food Canada. The number of scientific and professional staff was significantly reduced, and the research locations were consolidated into 19 research centres, supported by 37 sub-sites. In 2002, the Department fundamentally changed its governance structure, adopting a horizontal, matrix management model. This necessitated a concurrent change in the Research Branch's organizational structure, which was followed in 2003 by a change in its program structure. The governance and operations of the research centres have been adjusting to this model. Over the years, in addition to having various reviews, the Branch has changed considerably at the senior management level.

#### Science and Innovation Strategy

- 5.8 In 2006, the Department released its Science and Innovation Strategy, which contains strategic goals and objectives to guide the Department's science and innovation direction. This direction includes
  - investing in research, according to national priorities;
  - promoting excellence in research;
  - developing partnerships;
  - enhancing the bio-based economy; and
  - dealing with the commercialization of research.
- **5.9** As part of its strategic direction, the Research Branch is undergoing a transition, which will move it from an organization whose main role is the conduct of research in support of the sector to one that also provides leadership and direction in the building and coordination of national agricultural science and innovation. The Department has indicated that this will require increased emphasis on collaborative

efforts and initiatives to promote industry investment. This transition reflects one of the Department's primary objectives, that is, to develop a sector that can compete successfully in domestic and international markets and can achieve sustained growth and profitability, by making innovations, adapting to change, and seizing new opportunities.

The Department's Science and Innovation Strategy is aligned with Growing Forward, its new policy framework, and with the 2007 federal government's science strategy. Growing Forward is designed, in part, to encourage industry leadership and investment in agricultural science and innovation. The framework is for four years and is effective from April 2009 to March 2013.

#### Focus of the audit

- 5.11 Our audit examined whether the Department has managed its research activities to achieve its strategic direction, which includes its Science and Innovation Strategy, the Growing Forward policy framework, and the national priorities and the themes used to select research projects. Most of our audit work was conducted in the Department's Research Branch, but it also included supporting branches, such as Human Resources, Communications and Consultations, and Corporate Management.
- The scope of our audit included examining the plans and activities the Department put in place to achieve its strategic direction and how it communicated those plans and activities to staff and external stakeholders. We also examined how scientific research projects were selected and managed. We reviewed human resource plans, actions to address resource gaps, and the management of capital assets. In addition, we examined the Department's management of formal collaborative research agreements involving multiple organizations. The audit included case studies as well as a representative sample of research project files.
- 5.13 More details on the audit objectives, scope, approach, and criteria are in About the Audit at the end of this chapter.

# Observations and Recommendations

# Implementing a strategic direction for research

- 5.14 We examined whether Agriculture and Agri-Food Canada had developed and implemented appropriate plans to execute its strategic direction. In developing these plans, we expected the Department to have assessed the need for the activities within the organization and developed programs that form a coherent suite.
- 5.15 Action plans are a means to provide a common understanding of what needs to occur to implement policy direction. They identify
  - what specific actions need to be taken,
  - what the results to be achieved are.
  - who is responsible for the results,
  - · how the results will be achieved, and
  - what the specific timelines are.

# The Department's action plan is under development

- 5.16 The Department released its Science and Innovation Strategy in May 2006. Some aspects of the strategy were implemented in 2006, such as a peer review process for project selection to ensure science excellence, and a management review of projects for alignment with national priorities in 2007. However, we found that the Department did not begin to formally draft a strategic action plan until October 2008, after the Growing Forward policy framework was developed.
- 5.17 At the end of our audit, in September 2009, Research Branch senior officials had approved only the first year (the 2009–10 fiscal year) of the four-year action plan. The plan was developed with input from scientists and stakeholders. Branch management indicated that the action plan would be adjusted in subsequent years, as needed. However, many of the sections were still not prepared and were identified as "under development." Specifically, we noted that the sections on resource requirements, risk and gap analysis, and reporting and evaluation requirements, as well as the appendices on the strategic management goals, were not complete.
- 5.18 In addition, the Department was still in the process of identifying the cost of carrying out its action plan. It had not identified all the requirements for implementing the action plan, including
  - human resources (scientists and professional staff) and the specific skill sets needed for human resource planning purposes,

- the equipment and facilities, and
- the financial requirements.

Therefore, partly because of the evolving policy environment, the action plan was not timely or complete.

- We also found that science and innovation programming under the Department's Growing Forward policy framework is intended to support a range of initiatives from discovery research to commercialization. The Research Branch has analyzed its programs to ensure that they form a coherent suite of programming across the research continuum.
- 5.20 Officials told us that the process for determining program funding was based on historical spending patterns and on the Growing Forward agreement. However, the process was not well documented. The allocation of funding is critical to the success of the programs and is an important part of financial management and control.
- Recommendation. Agriculture and Agri-Food Canada should further develop and implement its strategic action plan, taking into account federal policy direction and its own Growing Forward policy framework. The Department should establish overall costs and ensure that future action plans are developed before programming commences. The plans and costs should be reviewed periodically, to reflect the changing circumstances of science research and its partnerships.

The Department's response. Agreed. The policy context for the Department's Research Branch has been changing very rapidly; changes included a new federal Science and Technology Strategy in 2007 and the Department's new Growing Forward policy framework in 2008. The Research Branch developed a Science and Innovation Strategy in 2006 and implemented several of its elements, taking into account needed adjustments to respond to the evolving policy environment. The 2009 Research Branch Strategic Action Plan was the first iteration of a comprehensive management plan to implement the policy directions in the federal and the Department's science and technology strategies and in Growing Forward.

The 2010 Strategic Action Plan updates and builds on the 2009 plan. It will include four additional components that cover the planning of human resources needs, a framework for the management of collaborative agreements, a framework for the allocation of research

funding for each national science priority, and measurable targets for each research priority. Implementation of the plan will begin in April 2010.

The plan, including cost information, will be used to guide implementation of the Research Branch's Science and Innovation Strategy and future programming. It will be updated annually in consultation with managers and staff.

## Communication needs to be improved

- **5.22** Developing communication strategies. Well planned communication strategies are key components of internal and external information sharing, which includes
  - identifying the target audiences,
  - determining the purpose of the communications,
  - determining what messages to communicate and how to communicate those messages, and
  - · verifying that the messages were conveyed.
- **5.23** We examined whether the Department had developed and implemented a communication strategy for the Research Branch that included plans for informing internal staff and external stakeholders of its plans and activities.
- 5.24 The Department had implemented various communication mechanisms since the release of its Science and Innovation Strategy in 2006. For example, in October 2007, it issued an internal newsletter, and its external communications have included news releases and targeted media stories. Despite these communication initiatives, we found that officials from other organizations in the agricultural research sector, as well as many of the Department's own research scientists, were uncertain about the Department's strategic direction. This was due, in part, to the fact that the Department did not have an action plan for executing its strategic direction. We noted that the Department had been operating under a draft science communication strategy since 2006. It was finalizing internal and external science communication strategies at the end of our audit in September 2009.
- 5.25 Dissemination of research results. We also expected that the Department had developed and implemented a communication strategy for the Research Branch that included plans for disseminating research results, in a timely manner, to meet the needs of those who depend on them for results.

- 5.26 The Department's external science communication focuses on
  - raising awareness of the relevance of the Department's science and its benefits;
  - reinforcing the government's role as a leader, funder, and facilitator of agricultural research; and
  - ensuring that communications are aligned with the national priorities.
- **5.27** However, the important issue of the timely dissemination of research results is not directly addressed in the communication strategy.
- **5.28** We found that available web tools were not fully used. While scientists' names and the titles of their publications were available on the Department's website, the abstracts were not posted. The Department has plans to post abstracts of its scientists' research publications on its website.
- 5.29 Consistent with standard practices within the scientific community, the Department's scientists continue to share research results through scientific conferences. The Department also communicates with research users through open houses at research centres and by publishing internal and external newsletters. However, it has no systematic process for identifying who to share the research results with or for determining when and how to share those results. A frequent comment made by the stakeholders we interviewed was the need for the Department to improve its communication of research results.
- **5.30** Recommendation. Agriculture and Agri-Food Canada should better communicate its strategic direction for research and improve the timeliness of the dissemination of its research results.

The Department's response. Agreed. The Department is an internationally recognized knowledge-based organization that relies on the success of its scientists to generate benefits for the sector. It is important to communicate these successes.

The Department is stepping up its communication strategies (internal and external) and will have finalized a new engagement strategy for staff and stakeholders by April 2010. The Department is using its improved strategies to better inform and engage both employees and stakeholders in the development of its plans and activities, as well as to share its research results in a timely manner.

Staff and stakeholder engagement will be developed and sustained through town halls with senior management and new communication tools. The creation of a new regional research users' forum will accelerate the dissemination of research results.

The Department will monitor on an ongoing basis the effectiveness of its communication and engagement activities through media monitoring, reporting on events, staff and stakeholder feedback, tracking traffic to websites and distribution of products. The Department will adjust its strategies as necessary.

# Management of collaborative agreements needs to be improved

- 5.31 One of the principles underlying the Department's 2006 Science and Innovation Strategy is the development of partnerships with other research providers. In an era of limited research resources in many science organizations and with ever broader challenges facing the sector, collaborative research is seen as a way to ensure that the agricultural sector maintains a competitive edge and to leverage resources. The development of partnerships requires that management, scientists, and the industry work together to understand and serve the sector's needs.
- 5.32 The Research Branch has a history of undertaking successful collaboration with scientists in other organizations, including provincial governments, academia, producer and commodity groups, other government departments, and international organizations. The Department manages numerous research agreements each year. These collaborative efforts tend to be for single projects and initiated by scientists conducting similar research.
- **5.33** Collaborative research involves a number of activities, including the sharing of post-doctoral students, meetings between scientists during the course of a research project, sharing of research results, and joint publication of research findings. Collaboration takes different forms, for example, individual research projects that the Department carried out for industry partners under its Matching Investment Initiative.
- **5.34** Our audit examined three formal long-term partnerships, involving multiple partners and multiple projects.
- 5.35 We examined whether the Department
  - had developed and implemented appropriate plans to execute its strategic direction in relation to these partnerships;
  - had appropriate communications for informing collaborative partners of its plans and activities;

- had planned, implemented, and monitored the research;
- · had assessed human resource needs and addressed gaps; and
- had managed capital assets.
- 5.36 We found that the Department did not have appropriate plans to maximize the success of these collaborations, due, in part, to its evolving policy environment and the significant change this represented for the Research Branch and its stakeholders. The extent of research conducted was limited, primarily due to the limited financial and human resources contributed by the Department. In addition, there were implementation delays, which have important implications in the context of a five-year agreement. For one of the three collaborations the Department participated in, we also found weaknesses in financial management and control. For example, a significant capital asset was purchased before a network was approved for funding. Overall, we found that the Department had not managed these collaborative agreements well, causing significant loss of goodwill with a number of important partners.
- **5.37** The following is a summary of the three collaborations, for which the Department had signed agreements.
- 5.38 Scientific Research Collaboration in Prince Edward Island. In May 2006, the Department signed a five-year agreement on agri-food research in bioresources and health with the National Research Council of Canada and the University of Prince Edward Island. The collaboration involves the sharing of a new building, which was available for occupancy in October 2006.
- **5.39** Under the agreement, the Department committed to hire up to seven scientists and seven technicians and to provide equipment to support their activities. In August 2006, the Department was aiming to fill three research positions in the 2006–07 fiscal year and three positions in the 2007–08 fiscal year.
- 5.40 However, the Department only hired three scientists after significant delays—two in March 2008 and one in September 2008. In addition, three technicians were eventually assigned to this partnership; not all were assigned on a full-time basis. Initial funding was allocated in September 2008, until scientists had identified opportunities and prepared proposals for peer review. Two scientists submitted proposals for funding for 2009–10 research projects, but they were not successful. They were then provided with start-up funding for a project in June 2009. The limited availability of research staff had a negative impact on the collaborative effort.

- 5.41 Food Innovation Network in Guelph. In May 2004, the Department signed a five-year agreement with the Ontario Ministry of Agriculture, Food and Rural Affairs, the University of Guelph, and the Guelph Food Technology Centre. A new agreement was signed, in June 2006, to include the Public Health Agency of Canada in the network.
- 5.42 The Department provided funding in the amount of \$158,000. The Food Innovation Network was to facilitate food research and knowledge transfer. An executive committee, which included representatives from each of the collaborating organizations, last met in November 2007.
- **5.43** The network faced a number of challenges:
  - Champions for the initiative, including the Department's lead, left their respective organizations, leaving the network without continuity of leadership.
  - Department funding provided support for an executive director, a key position, for only one year.
  - A common direction needed to be established and terms of the collaboration needed to be agreed to.
- 5.44 The Food Innovation Network is currently inactive.
- 5.45 Agricultural Bioproducts Innovation Program (ABIP). In December 2006, \$145 million was announced for ABIP, for a five-year period, to support the establishment and operation of bioproducts research networks. An external committee of international experts reviewed proposals from 78 networks and recommended 15 networks for funding.
- 5.46 Program managers misunderstood how much funding was available, and they expected that all 15 networks would be funded. As a result, they requested that agency agreements be prepared and contribution agreements be drafted. There was also consultation about intellectual property rights, and a number of requests for information from the networks. Networks spent considerable time adjusting research plans to accommodate the Department's budgets. However, the Department selected only nine networks for funding, stating that the program funding envelope was not sufficient.
- 5.47 When it became apparent that not all 15 networks could be funded, Department management recommended not funding the six networks that were focusing on food for health. Based on their experience in obtaining funding from granting agencies,

those six networks had believed they would be funded, and many had incurred significant costs in time and resources. There was significant loss of goodwill as a result.

- The six network participants questioned the Department's commitment to research on food for health; they felt that the decision-making process was not adequately explained to them. Given the resources they had spent on the process, participants also indicated that the process hindered research on food for health in Canada that could have been conducted.
- According to letters that they were sent, the nine successful networks were allocated \$74.4 million for three years, from the 2008–09 fiscal year to 2010–11. However, the letters specify that only \$43.6 million can be used for non-government research. Therefore, while the original announcement indicated that \$145 million would be available to support research networks, only 30 percent was actually allocated for research external to the federal government. The Department has indicated that it is spending the difference.
- The funds that the Department requested and received were not all intended for the networks. It was to use 40 percent of the funds for operating expenses associated with the program and 17.5 percent for capital purchases. However, because there was a significant time delay in rolling out the program, the funds could not be used when expected. The Department received approval to use about \$20.3 million for other department initiatives. The delays also meant that participants had less time to complete their research work.
- 5.51 During this time, Research Branch management approved and purchased a piece of equipment for a network, which cost almost \$1 million, before they approved funding for the network. Eventually, they recommended that the network not receive the funding. Purchasing equipment before all approvals were obtained for the networks demonstrated weak financial management and control. The Department has indicated that it was able to find alternative uses for the equipment in other projects.
- The Department has recently launched the Canadian Agri-Science Clusters Initiative, which, like ABIP, aims to support collaborative science delivery. The deadline for organizations to submit proposals was January 2010. Successful clusters will again have just three years to complete their research before the funding ends. The Department has indicated that it is building on the lessons learned from ABIP to guide its administration of clusters.

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5.53 Recommendation. Agriculture and Agri-Food Canada should strengthen collaborative efforts by improving the management of its agreements and ensuring their success by

- more clearly communicating the resources it intends to contribute to partners in collaborative agreements,
- carrying out commitments made in these agreements.
- ensuring timely involvement in programs and ensuring that timelines for program delivery are respected,
- improving its planning for the allocation of human and other resources, and
- ensuring that capital expenditures are not incurred prior to final approvals.

The Department's response. Agreed. The Department's Research Branch has put into place a dedicated unit to oversee the delivery of new programming that will support collaborative arrangements. The unit is led by senior managers with program management expertise. Improvements have been made to the programming rolled out in 2009 to include clearer targets and measurable performance indicators.

The Department's Research Branch is developing a new Collaborative Management Framework and Guidelines to build on successful elements of previous partnerships. The Framework and Guidelines will support decisions related to partnership selection, will support effective management of those partnerships and will support monitoring of implementation of partnership arrangements. The application of the Guidelines will ensure a rigorous process is in place for the development of future collaborative arrangements by identifying the resources and timelines required and the approval processes, the elaboration of corresponding implementation plans, as well as the planning and reporting of expenditures.

The Framework and Guidelines will be the basis for ongoing discussions with partners, to begin in April 2010. They will be used by the Research Branch to strengthen partner relations, ensure implementation of commitments in a timely manner, promote ongoing dialogue and help maximize the benefits of research projects for Canadians.

# Managing scientific projects

- 5.54 We examined whether the Research Branch of Agriculture and Agri-Food Canada had planned and implemented the research projects undertaken by its scientists to align with its strategic direction. We also examined whether the Department had clear priorities for research selection. These include
  - ensuring that the projects are based on excellent science and technology to stand up to the scrutiny of world-class experts;
  - assessing the fit of research projects with the Department's mission, goals, and overall priorities; and
  - leveraging resources with external capacity to maximize efficiency.

# There have been delays in clarifying national priorities

- **5.55** In developing its 2006 Science and Innovation Strategy, the Department had extensive consultations with the public and its stakeholders. This led to the development of the following seven national research priorities:
  - Enhance human health and wellness through food, nutrition, and innovative products.
  - Enhance the quality of food and the safety of the food system.
  - Enhance the security and protection of the food supply.
  - Enhance economic benefits for all stakeholders.
  - Enhance environmental performance of the Canadian agricultural system.
  - Enhance understanding of Canadian bioresources and protecting and conserving their genetic diversity.
  - Develop new opportunities for agriculture from bioresources.
- 5.56 For research to be conducted in the 2007–08 fiscal year, the Research Branch began a project selection process that included external peer reviews of research proposals submitted for departmental funding. The purpose was to ensure excellence in research. This represented a significant change for Research Branch staff; the selection of research projects moved from a decentralized model to a national model that included priorities.
- 5.57 The project proposals were evaluated against criteria such as scientific excellence, scientific merit, contribution to innovation and the public good, and feasibility and potential to achieve objectives and

deliver results. Following these reviews, a management committee assessed the proposals for alignment with the seven national priorities.

- 5.58 However, we found that these priorities were written as broad statements that provided little information on the expected research activities. For example, the most general national priority was "Enhance economic benefits for all stakeholders." Research Branch scientific staff also told us that the national priorities were so broad that research projects could be easily aligned with one of them.
- 5.59 Some additional description of the national priorities was provided to scientists in June 2007. As part of developing the strategic action plan, in consultation with scientists, the Research Branch began elaborating on each national priority in November 2008. The first drafts were distributed for comment to the Department's science community in March 2009—three years after the release of the Science and Innovation Strategy.

# The lack of predictable funding had an impact on research efforts

- 5.60 Government research operates in an environment of changing priorities and competing pressures for funding. We noted that financial pressures have had a significant impact on the Department's research efforts. Peer-reviewed project funding was reduced by about 6 percent in the 2007–08 fiscal year. In the 2008–09 fiscal year, funding was further reduced by approximately 20 percent, which had an impact on the researchers' ability to conduct some of the research activities identified in the project proposals. Project proposals had to be adjusted to respond to funding reductions, which had a negative impact on some research projects.
- was unable to commit all funding for approved research projects. For example, one project we examined focused on developing wheat varieties that were resistant to a fungal disease. The disease reduces production yields and is responsible for producing toxins in grain. The lead scientist requested almost \$100,000 per year for the four-year project, which included seven other scientists. However, following the recommendation made during the peer review process, only \$60,000 per year was approved. Budget reductions resulted in the project receiving only \$48,000 in the first year. In its second year, the project received an initial instalment of \$36,000. Subsequent to our audit, additional funds were released; the final allocation was \$54,000 for the 2009–10 fiscal year. However, the funding uncertainty had an impact on the work that was undertaken to achieve project objectives.

# Monitoring and reporting of research projects is weak

- 5.62 We examined whether the Branch had developed and implemented processes for monitoring and reporting on its research activity and accountability for results. We conducted interviews with Department officials, including scientists at various research centres across Canada. In addition, we selected and analyzed two random samples of research projects—one sample of 39 in-progress research projects from a total of 683 and one sample of 34 completed projects from a total of 86—covering the 2007–08 and 2008–09 fiscal years.
- 5.63 We found that the Research Branch had developed processes for monitoring and reporting on its departmentally funded research projects, including requirements for management sign-off and approval. However, these monitoring processes were not always followed and did not apply to all research projects. Furthermore, scientists indicated that they received minimal management feedback from this monitoring, with respect to the assessment of research progress and final results achieved.
- 5.64 Beginning in the 2008–09 fiscal year, standard annual progress reports were requested for all departmentally funded projects. Science directors were required to sign the reports and indicate their approval. In our sample of in-progress projects, we found that in most cases the reports were not signed, and there was no indication of approval. Consequently, there was little indication that Branch management had assessed the progress made on the projects. Furthermore, less than half of the scientists interviewed indicated that they had received verbal feedback on their departmentally funded projects, and even fewer had received feedback on externally funded projects. Feedback that was provided typically did not occur until the scientists' annual performance appraisals.
- 5.65 According to Department officials, all research project planning and monitoring information was stored in the Research Branch's project inventory database. However, we found that project reports were available for only about 40 percent of the projects in our in-progress sample. Given that the project inventory database is the Branch's main planning and reporting tool for projects, Branch management lacked the necessary project information to assess the progress of individual research projects.
- **5.66** Furthermore, we found that over 70 percent of the projects in the in-progress sample had adjustments made to the original proposals, mainly related to budget reductions and staffing changes. Scientists

indicated that they had discussed the impact of these adjustments with their science directors in only about 25 percent of the cases.

- 5.67 For our completed projects sample, we found that there was no clear requirement for scientists to submit final project reports to Research Branch management at the end of the research project, except for externally funded projects. Externally funded projects have this requirement in the contractual agreement. Scientists submitted final project reports for 74 percent of the projects in our completed projects sample. Again, scientists indicated that management provided limited feedback on completed projects and that the feedback that was given was part of the annual appraisal process.
- **5.68** We reviewed the 2007 and 2008 performance appraisals of the scientists who led the projects in our samples to determine the timeliness of feedback. For both years, more than half of the appraisals were signed late—halfway through the next year—and the situation was worse in 2008.

# Analysis of the project portfolio is limited

- 5.69 Analysis of the entire project portfolio is important to ensure alignment with strategic direction. For example, the Branch had targets by national priority for allocating funding to the peer-reviewed projects. It allocated budget amounts to research projects based on these targets. However, our analysis showed that there was a significant gap between the research projects and some of the targets, following the Department's elaboration of the national priorities. Thirty-six percent of the 2008–09 fiscal year funding for peer-reviewed projects was under the most general national priority, "Enhance the economic benefit of all stakeholders," although the target was twenty percent. Less than one percent of the funding was under "Enhance the security and protection of the food supply," which had a target of seven percent.
- 5.70 This demonstrates the importance of regularly analyzing the database and of elaborating on the national priorities earlier. In July 2009, senior management began a review of the entire portfolio. At the end of our audit, this review was still ongoing, as was an analysis of potential gaps in research.
- 5.71 While the Branch had targets set by national priority for the peer-reviewed projects, it did not have similar targets for its other research activities. In the 2008–09 fiscal year, 64 percent of the dollars allocated to research projects were not subject to peer reviews.

The lack of specific, measurable yearly commitments for the national priorities that applied to the entire research portfolio prevents a more integrated project management approach.

- **5.72** The Research Branch had not integrated an annual analysis of its entire research project portfolio in the decision-making process to approve new research projects or to approve the continuation of existing ones. A number of factors had an impact on the Branch's ability to produce a comprehensive analysis at the end of each year:
  - There was no formal monitoring framework that would clearly identify what project information needs to be collected and how frequently, how the information needs to be monitored and by whom, and what information needs to be reported and to whom.
  - During the past four to five years, project information was kept in various databases that did not collect the same type of information.
  - The data in the project inventory database was not updated with accurate project information, such as changes to project budgets.
- **5.73 Recommendation.** To improve research project oversight and monitoring, Agriculture and Agri-Food Canada should further develop and implement
  - specific and measurable targets for the Research Branch's national priorities that apply to its entire research portfolio, and
  - monitoring and reporting processes for assessing project performance.

The Department's response. Agreed. The Department's Research Branch is updating its performance measurement framework and improving its research project monitoring process.

A strengthened Performance Measurement Framework with clear and measurable targets for national priorities will be in place by April 2010. It will be implemented following consultation with staff and will support the production of annual performance reports, which will also be shared with staff.

Effectiveness of ongoing monitoring will be reviewed in 2010–11 by the Department's Office of Audit and Evaluation as part of its annual study of performance measurement at Agriculture and Agri-Food Canada.

# Managing human resources

- 5.74 The functions related to human resource management at Agriculture and Agri-food Canada are provided by the corporate Human Resources Branch. It works with management in other branches to develop and implement human resource plans and activities.
- 5.75 We examined whether the Department had developed a human resource plan for the Research Branch that identified future needs for achieving its strategic direction and that aligned with the corporate human resource and Research Branch business plans. We also examined whether the Department had developed measuring and monitoring processes and whether it had taken action to address identified human resource gaps.
- **5.76** Like many public sector organizations, the Research Branch faces a demographic challenge in terms of labour force availability. As of September 2007, 40 percent of its employees were 50 years of age or older. Of the 2,180 indeterminate employees in September 2007, about 18 percent were eligible to retire by March 2010. As well, there were a total of 685 indeterminate employees in the Scientific and Professional category of Research Branch employees, 27 percent of whom were eligible to retire by March 2010.
- 5.77 The number of potential retirements in the near future could result in a significant loss of science knowledge and capacity in some scientific areas. However, it could also provide the Research Branch with opportunities to adjust the workforce to better meet its strategic direction. Identification of the skill sets needed would ensure that the right people are available to meet its human resource needs and to achieve its strategic direction.

# Monitoring and reporting of the Research Branch's human resource plan are weak

- 5.78 We found that the Research Branch had developed a human resource plan for 2006 to 2009 that outlined the human resource activities needed to fulfill Branch and corporate goals. The activities were to be implemented by Branch management over the three-year period. In addition, the plan called for an annual detailed action plan that included an updated three-year time horizon and formal measuring and monitoring processes to facilitate reporting to Branch senior management semi-annually.
- **5.79** While many of the activities identified in the 2006–2009 Human Resource Plan were implemented, the formal monitoring and reporting processes were not developed. In addition, the annual three-year action plans, which were meant to ensure a continuous alignment

between the planned human resource activities and the Branch's operational needs, were not prepared.

## Human resource planning is being reviewed

- 5.80 A number of systems and practices were developed to support human resource planning within the Research Branch, such as performance evaluation tools and new external hiring tools. We also noted that the Research Branch had developed annual short-term staffing plans and that three of the nineteen research centres drafted multi-year site plans that included some human resource planning information.
- **5.81** While these initiatives helped the Branch with some of its human resource planning, there was little focus on long-term planning. This planning would include, among other things, determining the number of scientists and the competencies required to achieve its strategic direction. The Department found that it was a challenge due to the evolving policy direction.
- 5.82 Although annual human resource requirements were identified as part of the Department's annual business planning, there was no indication of how the Research Branch would staff positions over the next several years. In addition, there had been no assessment of the numerous vacant positions within the Branch, to determine which ones need to be considered for staffing in the future and which ones need to be eliminated.
- 5.83 At the end of our audit, an extensive human resource review was under way. The Department intends to finalize the Research Branch's long-term human resource plan as part of the strategic action plan. The human resource plan will cover 2009 to 2012.
- **5.84** Recommendation. Agriculture and Agri-Food Canada should further develop and implement an updated human resource plan for the Research Branch that is aligned to departmental and branch priorities. The plan should
  - address current and future human resource requirements,
  - include strategies to address identified gaps,
  - include a formal monitoring and reporting process, and
  - be updated annually to reflect the current realities of the Research Branch environment.

The Department's response. Agreed. An updated Research Branch human resource plan will be completed by April 2010 to help achieve

the Branch's Strategic Action Plan objectives. This Branch plan will be aligned with the Department's integrated human resource plan. The 2009–12 Research Branch Human Resource plan will incorporate staffing requirements based on expected results identified in the Action Plan, taking into account succession planning needs; a suite of staffing strategies will also be identified to address gaps. It is being developed with input from research managers and staff from across the country. Implementation of the Research Branch Human Resource plan will be monitored, updated and reported on annually, starting in 2010–11.

# Managing capital assets

- 5.85 The Research Branch has approximately 1,200 buildings, located at 19 main research centres and 37 sub-stations. In addition, the Research Branch uses approximately 28,000 items of laboratory and agricultural equipment—4,000 of which were valued at over \$10,000.
- **5.86** We expected Agriculture and Agri-Food Canada to have managed the Research Branch's capital assets to achieve its strategic direction. This included systematically and regularly assessing the condition, performance, functionality, and use of capital assets and investing in capital assets that support the strategic direction. We examined capital planning, including acquisition and disposal plans.

# Capital assets are not regularly assessed

- 5.87 We found that the Department had developed a long-term capital plan for the 2005–06 to the 2009–10 fiscal year. The plan included an assessment of the condition of the buildings at research sites (centres and sub-stations). The results showed that a number of sites had heated and unheated outbuildings assessed as in poor condition. In addition, of the 19 main office laboratories, three were in poor condition and 8 were in average condition. Greenhouses were in similar condition. Overall, based on square metres, the condition of the majority of the buildings was rated as poor (26 percent) or average (45 percent) rather than good or excellent.
- **5.88** The Department has also obtained comprehensive information by conducting detailed building condition reviews of some of the research sites.
- **5.89** We found that the Department maintained a central inventory of buildings that identified the age of each building. However, the inventory did not include information on the physical condition of the buildings.

- The long-term capital plan also showed that the percentage of the 28,000 equipment items that exceeded its service life was 71 percent. In addition, over the life of the long-term capital plan, a further 18 percent would exceed its service life. Equipment inventories were maintained at research centres, but the inventories did not include information on their use, functionality, or physical condition.
- The Department has not systematically and regularly assessed the use and functionality of buildings and equipment. We noted that, as part of the development of the strategic action plan, managers at each research centre completed templates on equipment and infrastructure. The requested information included the age, condition, and use of all assets at the centres. The Department has informed us that the information collected is very preliminary and had not been validated.
- **5.92** We also found that many capital equipment purchases, costing more than \$10,000, were being charged to the operating budget. When total capital expenditures equal or exceed \$5 million, capital funds should be used for purchases that cost more than \$10,000. Between the 2006-07 and 2008-09 fiscal years, the percentage of capital equipment acquisitions charged to the operating budget ranged from 32 percent to 96 percent, based on dollar value. For the 2008–09 fiscal year, this represented \$3 million of the \$9.5 million worth of capital equipment purchased. It should be noted that these acquisitions were correctly recorded as capital assets for accounting purposes.
- 5.93 Disposal of buildings and land. We looked at the inventory of buildings that the Department identified as being surplus to its program needs for the past five fiscal years. The Department has made progress in demolishing or selling buildings and structures. For example, it has sold or demolished 43 buildings since 2005. This includes many smaller structures, such as storage sheds and garages.
- We also looked at sites that the Department identified as surplus in the past 10 years. We found that four properties were disposed of or transferred in a timely manner. However, three sites have been on the disposal list since the mid-1990s and, due to a variety of circumstances, their disposal has been delayed.
- Some properties were identified as surplus to program requirements by an expenditure review exercise in 2005. However, a moratorium was put on the disposal of these sites in the same year, and no further decisions on property disposals have been made.
- Since the expenditure review exercise in 2005, the Department has not conducted a formal assessment of how all of its centres and

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sub-stations are used. In addition, it has not yet identified the locations that are critical and need to be kept and those that are no longer needed to achieve its research strategic direction. However, the Department has carried out some planned activities for renewing and replacing its capital assets.

- **5.97** Department officials indicated that the disposal of properties will be considered in the review of all assets, as part of the strategic action plan.
- **5.98** Recommendation. Agriculture and Agri-Food Canada should develop mechanisms to systematically and regularly assess the condition, functionality, and use of the Research Branch's capital assets, to help plan for the renewal and replacement of the significant capital assets that the Research Branch needs to achieve its strategic direction.

The Department's response. Agreed. Building upon the 2005–10 Agriculture Agri-Food Canada Asset Management Strategy and Long-term Capital Plan, and consistent with the Treasury Board Policy on Investment Planning, the Department will complete, by April 2010, a 2010–2015 capital investment plan, which will include its Research Branch facilities. The Department will do regular inspections of its key facilities and the results of these inspections, combined with Research Branch priority requirements, will support future investment decisions.

# Conclusion

- 5.99 We looked at whether Agriculture and Agri-Food Canada had developed and implemented appropriate plans and activities to execute its strategic direction. The Department's Research Branch approved a detailed action plan for its strategic direction, at the end of our audit. However, the action plan was not timely or complete, which is due, in part, to the evolving policy environment. Stakeholders and some Department scientists indicated a lack of clarity about the Department's strategic direction, partly because it lacked an action plan for executing its strategic direction.
- **5.100** As part of our review of the implementation of its strategic direction, we reviewed some of Agriculture and Agri-Food Canada's formal collaborative efforts. We found that, while the Research Branch has a history of successful collaboration with scientists in other organizations on individual research projects, it did not manage the more complex collaborative agreements we examined well. This caused significant loss of goodwill with a number of important partners.

- **5.101** We also found a number of financial management and control issues. The process for determining program funding was not well documented. The cost of carrying out its strategic action plan, in terms of human, capital, and financial resources, had yet to be determined.
- 5.102 Under research project management, revisions to budgets for research projects were not recorded in the project inventory database, and there was a lack of predictable funding for approved research projects. For capital asset management, a high percentage of capital equipment acquisitions were charged to the Department's operating budget. As part of the collaborative agreements, the Department purchased a major capital asset before funding for the project was approved. As well, program managers were unaware of the limited amount of funding available for a major program.
- **5.103** We examined the Research Branch's management of its research projects to achieve its strategic direction. We found that the Department had implemented an external peer review process to select the research projects it funds. This was a positive step to ensure excellence in science. However, we also found limited monitoring of research activity and feedback to scientists, and little analysis of the entire research project portfolio.
- 5.104 In addition, we looked at whether the Department had assessed the current and future human resource needs of the Branch to achieve its strategic direction, and whether it had taken action to address any gaps. While many activities in the human resource plan were implemented, we found that there was no long-term identification of how the Research Branch would staff positions and no assessment of the vacant positions. At the end of our audit, an extensive review of human resources was underway to identify and address gaps for the implementation of the Branch's strategic direction.
- **5.105** Finally, we examined the Department's management of the Research Branch's capital assets to achieve its strategic direction. We found that it does not regularly assess the condition of capital assets and their use, to ensure their continued need.
- 5.106 Overall, we found that the Department had not managed its research activities sufficiently to achieve its strategic direction. However, it was making significant changes in response to evolving policy directions. Some of the elements necessary to implement its strategic direction are being put in place. The Department needs to elaborate on and implement other key aspects of its strategic action plan, to ensure effective management of its research activities.

# About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office of the Auditor General adopts these standards as the minimum requirements for our audits, we also draw upon the standards and practices of other disciplines.

### **Objectives**

Our overall audit objective was to determine whether Agriculture and Agri-Food Canada has managed its research activities to achieve its strategic direction—that is, its Science and Innovation Strategy and Growing Forward Policy Framework and the national priorities and research themes for the selection of research projects.

There were four sub-objectives, which were to determine

- whether the Department has developed and implemented appropriate plans and activities to execute its strategic direction,
- whether the Department's Research Branch has managed its research projects to achieve its strategic direction,
- whether the Department has assessed the current and future human resource needs of its Research Branch to achieve the Branch's strategic direction and has addressed any identified gaps, and
- whether the Department has managed the Research Branch's capital assets to achieve its strategic direction.

# Scope and approach

The focus of our audit was on the Research Branch of Agriculture and Agri-Food Canada. We also looked at support functions provided to the Research Branch by the Human Resources Branch, the Corporate Management Branch, and the Communications and Consultation Branch.

The audit focused on the planning and implementation of the Research Branch's strategic direction and the management of research projects led by Department scientists. We also analyzed a random sample of 34 completed research projects, from a total of 86, and a second random sample of 39, from a total of 683 research projects in progress. These were selected from the Research Branch Project Inventory dambase cavering the 2007, 08 and 2008, 39 uscal years. The two samples were statistically significant and meet our Office standards.

We also examined three collaborations, involving multiple partners, for which the Department had signed agreements.

We reviewed documents and interviewed research scientists as well as other officials at 12 of the Department's research centres and at its headquarters in Ottawa. We also interviewed representatives from academia, industry, and other government departments involved in research collaborations with the Department.

# Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Management Accountability Framework (Governance and
Management Accountability Framework (Governance and
Strategic Direction: Effective Planning Function), Treasury Board of Canada Secretariat, 2003  Management, Resources, and Results Structure Policy, Treasury Board, 2008  1999 November Report of the Auditor General, Chapter 22, Attributes of Well-Managed Research Organizations
<ul> <li>Science and Innovation Strategy, Agriculture and Agri-Food Canada, 2006</li> <li>Communications Policy of the Government of Canada, Treasury Board, 2006</li> <li>1999 November Report of the Auditor General, Chapter 22, Attributes of Well-Managed Research Organizations</li> </ul>
ientific projects
Management Accountability Framework (Governance and Strategic Direction: Effectiveness of the Corporate Management Structure), Treasury Board of Canada Secretariat, 2003
<ul> <li>Management Accountability Framework (Stewardship: Effective Project Management), Treasury Board of Canada Secretariat, 2003</li> <li>1999 November Report of the Auditor General, Chapter 22, Attributes of Well-Managed Research Organizations</li> </ul>
Management Accountability Framework (Stewardship: Effective Project Management), Treasury Board of Canada Secretariat, 2003
uman resources
Integrated Planning Guide, Office of Chief Human Resources Officer, Treasury Board of Canada Secretariat, 2007
<ul> <li>Succession Planning and Management Guide Office of Chief Human Resources Officer, Treasury Board of Canada Secretariat, 2007</li> <li>Management Accountability Framework (Governance and Strategic Direction: People), Treasury Board of Canada</li> </ul>

Criteria	Sources
We expected the Department to have developed human resource plans and measures and to have taken action to address	Integrated Planning Guide, Office of Chief Human Resources     Officer, Treasury Board of Canada Secretariat, 2007
identified human resource gaps.	Succession Planning and Management Guide, Office of Chief Human Resources Officer, Treasury Board of Canada Secretariat, 2007
	<ul> <li>Management Accountability Framework (Governance and Strategic Direction: People), Treasury Board of Canada Secretariat, 2003</li> </ul>
Managing	capital assets
We expected the Department to have managed the Research	Policy on Management of Real Property, Treasury Board, 2006
Branch's capital assets to achieve its strategic direction.	Policy on Long-term Capital Plans, Treasury Board, 1994
	Directive on the Sale or Transfer of Surplus Real Property, Treasury Board, 2006
	Policy on Management of Materiel, Treasury Board, 2006
	Management Accountability Framework (Effectiveness of Asset Management), Treasury Board of Canada Secretariat, 2003

Management reviewed and accepted the suitability of the criteria used in the audit.

# Period covered by the audit

The audit covered the period between April 2005 and September 2009. Audit work for this chapter was substantially completed on 22 September 2009.

# Audit team

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# **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

# Recommendation Response

## Implementing a strategic direction for research

5.21 Agriculture and Agri-Food Canada should further develop and implement its strategic action plan, taking into account federal policy direction and its own Growing Forward policy framework. The Department should establish overall costs and ensure that future action plans are developed before programming commences. The plans and costs should be reviewed periodically, to reflect the changing circumstances of science research and its partnerships. (5.16–5.20)

**5.30** Agriculture and Agri-Food Canada should better communicate its strategic direction for research and improve the timeliness of the dissemination of its research results. (5.22–5.29)

Agreed. The policy context for the Department's Research Branch has been changing very rapidly; changes included a new federal Science and Technology Strategy in 2007 and the Department's new Growing Forward policy framework in 2008. The Research Branch developed a Science and Innovation Strategy in 2006 and implemented several of its elements, taking into account needed adjustments to respond to the evolving policy environment. The 2009 Research Branch Strategic Action Plan was the first iteration of a comprehensive management plan to implement the policy directions in the federal and the Department's science and technology strategies and in Growing Forward.

The 2010 Strategic Action Plan updates and builds on the 2009 plan. It will include four additional components that cover the planning of human resources needs, a framework for the management of collaborative agreements, a framework for the allocation of research funding for each national science priority, and measurable targets for each research priority. Implementation of the plan will begin in April 2010.

The plan, including cost information, will be used to guide implementation of the Research Branch's Science and Innovation Strategy and future programming. It will be updated annually in consultation with managers and staff.

Agreed. The Department is an internationally recognized knowledge-based organization that relies on the success of its scientists to generate benefits for the sector. It is important to communicate these successes.

The Department is stepping up its communication strategies (internal and external) and will have finalized a new engagement strategy for staff and stakeholders by April 2010. The Department is using its improved strategies to better inform and engage both employees and stakeholders in the

### Recommendation

# Response

development of its plans and activities, as well as to share its research results in a timely manner.

Staff and stakeholder engagement will be developed and sustained through town halls with senior management and new communication tools. The creation of a new regional research users' forum will accelerate the dissemination of research results.

The Department will monitor on an ongoing basis the effectiveness of its communication and engagement activities through media monitoring, reporting on events, staff and stakeholder feedback, tracking traffic to websites and distribution of products. The Department will adjust its strategies as necessary.

5.53 Agriculture and Agri-Food
Canada should strengthen collaborative
efforts by improving the management of
its agreements and ensuring their
success by

- more clearly communicating the resources it intends to contribute to partners in collaborative agreements,
- carrying out commitments made in these agreements,
- ensuring timely involvement in programs and ensuring that timelines for program delivery are respected,
- improving its planning for the allocation of human and other resources, and
- ensuring that capital expenditures are not incurred prior to final approvals. (5.31–5.52)

Agreed. The Department's Research Branch has put into place a dedicated unit to oversee the delivery of new programming that will support collaborative arrangements. The unit is led by senior managers with program management expertise. Improvements have been made to the programming rolled out in 2009 to include clearer targets and measurable performance indicators.

The Department's Research Branch is developing a new Collaborative Management Framework and Guidelines to build on successful elements of previous partnerships. The Framework and Guidelines will support decisions related to partnership selection, will support effective management of those partnerships and will support monitoring of implementation of partnership arrangements. The application of the Guidelines will ensure a rigorous process is in place for the development of future collaborative arrangements by identifying the resources and timelines required and the approval processes, the elaboration of corresponding implementation plans, as well as the planning and reporting of expenditures.

The Framework and Guidelines will be the basis for ongoing discussions with partners, to begin in April 2010. They will be used by the Research Branch to strengthen partner relations, ensure implementation of commitments in a timely manner, promote ongoing dialogue and help maximize the benefits of research projects for Canadians.

# Recommendation Response Managing scientific projects 5.73 To improve research project oversight and monitoring, Agriculture and Agri-Food Canada should further develop and implement Agreed. The Department's Research Branch is updating its performance measurement framework and improving its research project monitoring process.

- specific and measurable targets for the Research Branch's national priorities that apply to its entire research portfolio, and
- monitoring and reporting processes for assessing project performance. (5.55–5.72)

A strengthened Performance Measurement Framework with clear and measurable targets for national priorities will be in place by April 2010. It will be implemented following consultation with staff and will support the production of annual performance reports, which will also be shared with staff.

Effectiveness of ongoing monitoring will be reviewed in 2010–11 by the Department's Office of Audit and Evaluation as part of its annual study of performance measurement at Agriculture and Agri-Food Canada.

## Managing human resources

**5.84** Agriculture and Agri-Food Canada should further develop and implement an updated human resource plan for the Research Branch that is aligned to departmental and branch priorities. The plan should

- address current and future human resource requirements,
- include strategies to address identified gaps,
- include a formal monitoring and reporting process, and
- be updated annually to reflect the current realities of the Research Branch environment.
   (5.78–5.83)

Agreed. An updated Research Branch human resource plan will be completed by April 2010 to help achieve the Branch's Strategic Action Plan objectives. This Branch plan will be aligned with the Department's integrated human resource plan. The 2009–12 Research Branch Human Resource plan will incorporate staffing requirements based on expected results identified in the Action Plan, taking into account succession planning needs; a suite of staffing strategies will also be identified to address gaps. It is being developed with input from research managers and staff from across the country. Implementation of the Research Branch Human Resource plan will be monitored, updated and reported on annually, starting in 2010–11.

Recommendation

### Managing capital assets

5.98 Agriculture and Agri-Food Canada should develop mechanisms to systematically and regularly assess the condition, functionality, and use of the Research Branch's capital assets, to help plan for the renewal and replacement of the significant capital assets that the Research Branch needs to achieve its strategic direction. (5.87–5.97)

Agreed. Building upon the 2005–10 Agriculture Agri-Food Canada Asset Management Strategy and Long-term Capital Plan, and consistent with the Treasury Board Policy on Investment Planning, the Department will complete, by April 2010, a 2010–2015 capital investment plan, which will include its Research Branch facilities. The Department will do regular inspections of its key facilities and the results of these inspections, combined with Research Branch priority requirements, will support future investment decisions.









2010



Report of the
Auditor General
of Canada
to the House of Commons

**SPRING** 

Chapter 6 Special Examinations of Crown Corporations—2009



Office of the Auditor General of Canada



# 2010



Report of the Auditor General of Canada

to the House of Commons

**SPRING** 

Chapter 6
Special Examinations of Crown Corporations—2009





Office of the Auditor General of Canada

The Spring 2010 Report of the Auditor General of Canada comprises a Message from the Auditor General of Canada, Main Points—Chapters 1 to 5, and six chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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Ce document est également publié en français.

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# Chapter

6

Special Examinations of Crown Corporations—2009

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# Special Examinations of Crown Corporations—2009

# Special Examinations of Crown Corporations

**6.1** This chapter presents the main points of special examination reports of Crown corporations that were issued to their boards of directors between 1 January 2009 and 31 December 2009 and that have subsequently been made public. These reports were transmitted throughout the year, and the respective systems and practices were examined during different periods of time.

# Importance of Crown corporations

- **6.2** Crown corporations are distinct legal entities whose names, mandates, powers, and objectives are set out in either the constituent legislation for the parent Crown corporation or the articles of incorporation under the *Canada Business Corporations Act*.
- **6.3** Crown corporations have more autonomy than most other government entities, in part because they have commercial objectives as well as public policy objectives. They account for a significant portion of government activity and operate in many sectors of the Canadian economy, including transportation, energy, agriculture and fisheries, financial services, culture, and government services.
- 6.4 As of 31 December 2009, there were 46 parent Crown corporations and three subsidiaries that were directed to report as parent Crown corporations. These Crown corporations employed over 91,000 people. More than 82 percent of these employees worked at four corporations: Canada Post Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, and VIA Rail Canada Inc. The vast majority of Crown corporations had fewer than 3,000 employees.
- 6.5 Crown corporations manage more than \$300 billion in assets. The corporations fund their operations in a variety of ways. Some corporations are required by their enabling legislation to be financially self-sustaining and thus receive no parliamentary appropriations. Some are funded mainly through parliamentary appropriations. Others receive federal funding but also generate revenue. In the 2008–09 fiscal year, 25 of the corporations received just over \$5.9 billion in appropriations. Five of these accounted for 80 percent of the appropriations: Canada

Mortgage and Housing Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, Canadian Air Transport Security Authority, and VIA Rail Canada Inc. New Crown corporations are created periodically, although none was created in 2009.

A board of directors or a similar governing body oversees the management of each corporation and holds management responsible for the corporation's performance. The board of a parent Crown corporation is, in turn, accountable to Parliament through the responsible minister.

# Role of the Office of the Auditor General

6.7 Under Part X of the Financial Administration Act (FAA), the Auditor General is appointed to conduct annual audits of the financial statements and periodic special examinations of Crown corporations, either on her own or jointly with a private sector audit firm, unless she waives the appointment.

# Definition and objective of a special examination

- A special examination is an important mechanism of 6.8 accountability for Crown corporations. The objective of a special examination is to provide an independent opinion on whether there is reasonable assurance that a Crown corporation has systems and practices in place to ensure that
- assets are safeguarded and controlled;
- financial, human, and physical resources are managed economically and efficiently; and
- operations are carried out effectively.
- Any major weakness in the key corporate systems and practices that could prevent a corporation from achieving these objectives is reported as a significant deficiency. When planning a special examination, we conduct a risk analysis to identify the systems and practices that we consider essential to providing the corporation with this assurance. We also establish criteria that we use to examine the corporation's systems and practices. They are based on our experience with performance auditing and our knowledge of the subject matter and are selected in consultation with the corporation.
- The opinion we present in the special examination can take one of three forms. One conclusion is that there is reasonable assurance that there were no significant deficiencies in the systems and practices maintained by the corporation to achieve the objectives above. The second form concludes there is one or more significant deficiency. Lastly, in rare situations, we may find there is not reasonable assurance that a corporation's systems and practices achieve the objectives.

Significant deficiency—A major weakness in a Crown corporation's key systems and practices that could prevent it from having reasonable assurance that its assets were safeguarded and controlled, its resources were managed efficiently and economically, or its operations were carried out effectively.

- **6.11** The frequency of special examinations, as determined by the *Financial Administration Act* (FAA), is at least once every 10 years. However, special examinations could be carried out more frequently, if required by the Governor in Council (the Cabinet acting in a legal capacity), the appropriate minister, the board of directors of the corporation, or the Auditor General.
- 6.12 As part of the mechanism of accountability for Crown corporations, special examinations are reported to the board of directors of a Crown corporation or any similar governing body. Furthermore, the Auditor General may bring information from the special examination to the attention of the appropriate minister, after consulting the board of directors or any similar governing body. The Auditor General may also bring such information to Parliament's attention, after consulting the appropriate minister and the board of directors, by including it in the corporation's annual report.
- **6.13** The Financial Administration Act requires that the board of directors submit all special examination reports to the appropriate minister and the President of the Treasury Board within 30 days of receiving them. The Act also requires that the board of directors make the reports available to the public within 60 days of receiving them.

# Special examination results for 2009

- 6.14 Reports were issued for the following 11 Crown corporations: between 1 January 2009 and 31 December 2009, and have been subsequently made public:
- Business Development Bank of Canada
- Canada Development Investment Corporation
- Canada Mortgage and Housing Corporation
- Canada Post Corporation
- Canada Science and Technology Museum Corporation
- Canadian Commercial Corporation
- Enterprise Cape Breton Corporation
- Export Development Canada
- · Marine Atlantic Inc.
- National Gallery of Canada
- Standards Council of Canada

- **6.15** Of these eleven special examination reports, eight identified no significant deficiencies. Three identified one or more significant deficiencies:
- Canada Post Corporation had a significant deficiency relating to a strategic risk due to lack of funding for the postal transformation initiative.
- Canada Science and Technology Museum Corporation had a significant deficiency related to its human resource management systems and practices.
- Marine Atlantic Inc. had two significant deficiencies: one relating to unresolved strategic challenges, and the other relating to systems and practices in operational planning and capital asset management. Due to these significant deficiencies, we concluded that Marine Atlantic did not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

For each of these three corporations, we chose to bring the results to the attention of the appropriate minister.

- **6.16** In addition to reporting on significant deficiencies, our special examinations highlight systems and practices that contribute to success and they provide information and recommendations to boards of directors about other opportunities for improvement. For the 11 Crown corporations, our recommendations focused primarily on corporate governance, strategic planning, risk management, and performance measurement and reporting. Because of the small number of special examination reports that were issued in this period, it is difficult to identify overall trends.
- **6.17** It should be noted that these reports were transmitted to the respective board of directors at different dates throughout the year and that we examined the respective systems and practices during different periods of time. No follow-up audit work has been performed in respect of any of the matters raised in these reports.
- 6.18 The main points from each of the 11 special examination reports are reproduced in the next section and are not the full reports. Full reports can be found on the respective corporation's website.

# Main Points of Special Examinations—2009

# Business Development Bank of Canada—Main Points

[This examination was jointly completed with Raymond Chabot Grant Thornton LLP. We issued the full report to the Board of Directors on 9 April 2009. The examination work covered the period from January 2008 to September 2008. For the full report, please go to www.bdc.ca or contact the Corporation.]

### What we examined

The Business Development Bank of Canada (BDC or the Corporation) supports Canadian entrepreneurship by providing financial and consulting services to small and medium-sized enterprises (SMEs). It provides financing directly to Canadian SMEs on a commercial basis, at rates commensurate with the degree of risk assumed by BDC.

BDC is a financially self-sustaining federal Crown corporation, wholly owned by the Government of Canada. It reports to Parliament through the Minister of Industry. The Corporation's activities are guided by a Board of Directors consisting of a Chairperson, the President and Chief Executive Officer (CEO), and up to 13 other members.

On 31 March 2008, BDC was in business relationships with more than 27,000 SME clients. It had more than 1,700 employees and was providing services through 94 branches across Canada. At 31 March 2008, the net loans outstanding totalled \$9.5 billion. BDC has venture capital investments in 154 Canadian companies.

We examined whether BDC's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period from January 2008 to September 2008.

# Why it's important

BDC has been the only financial institution solely dedicated to the development of Canadian SMEs. Through its activities, it supports SMEs at all stages of development—from start-up to expansion—and through economic cycles. BDC's consulting activities provide affordable consulting services that would typically be accessible only to larger companies.

Unlike private sector banks, BDC has not only commercial objectives but also public policy objectives: to support Canadian entrepreneurship through its activities, with particular consideration to SMEs. To the extent that commercial banks restrict credit in the wake of the international financial crisis of 2008, BDC could face an increased demand from many Canadian entrepreneurs.

What we found

We found no significant deficiencies in BDC's systems and practices during the period covered by the examination. In several areas its systems and practices have contributed to its success:

• The Corporation has sound systems and practices in areas such as governance, strategic planning, human resources, and financing activities. For example, its strategies take the government's priorities into account and are based on analysis of the economy, developments in the Canadian SME sector, trends in SME financing and in private equity, as well as financial and operational constraints. Workforce planning and succession planning processes are effective—over the last three years the succession planning process has successfully identified candidates for promotion to positions where vacancies were expected. BDC has properly coordinated and communicated major initiatives and changes in its financing business processes.

We also found certain other areas where BDC would benefit from improving its practices:

- As noted in the 2004 special examination report, BDC needs more comprehensive indicators of performance in order to evaluate the effectiveness of its consulting strategy. The two key indicators it uses—client satisfaction and client retention do not provide appropriate information on the contribution made by its consulting services to SMEs over the long term.
- BDC has improved its strategic planning for information technology (IT) since the last special examination. However, it has not yet identified performance indicators for most of the IT strategic objectives. Without such information, it is not clear how progress toward IT objectives can be measured and corrective action taken where indicated. In addition, BDC needs to have an overall IT security policy to protect its assets. It also needs to ensure that business cases for all approved IT projects contain cost/benefit analyses and that the new governance committee oversees the ongoing progress of IT projects.

The Corporation has responded. BDC agrees with all the recommendations.

# Canada Development Investment Corporation—Main Points

[This examination was jointly completed with KPMG LLP. We issued the full report to the Board of Directors on 12 February 2009. The examination work covered the period from September 2008 to October 2008. For the full report, please go to www.cdiccei.ca or contact the Corporation.]

### What we examined

The Canada Development Investment Corporation (CDIC), a Crown corporation reporting to Parliament through the Minister of Finance, was created in 1982 to manage the commercial holdings of the government. In 1995, it was directed to actively divest its assets and prepare for eventual windup. In 2007, however, the Minister issued new direction to continue operating on a commercial basis while remaining prepared to divest when so directed.

Our examination included the operations of CDIC and two subsidiary corporations, Canada Eldor Inc. (CEI) and Canada Hibernia Holding Corporation (CHHC).

CEI manages liabilities resulting from the sale of its assets to Cameco Corporation in 1988. That is, it is responsible for financial obligations set out in its agreement with Cameco that relate to Cameco's management and disposal of historic wastes, site restoration, and administration of retiree benefits. It is also responsible for managing legal claims as they arise in connection with past operations. CHHC's sole purpose is to manage the federal government's 8.5 percent interest in the Hibernia Development Project.

CDIC's corporate headquarters are in Toronto and it has seven employees, including those of its subsidiaries. Total revenues, consisting of crude oil sales and interest income, were \$309 million for the year ended 31 December 2007, and total operating expenses were \$66 million.

We examined whether CDIC and its subsidiaries have systems and practices in place to provide the Corporation with reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively. Our detailed examination work in both the parent Corporation and the subsidiaries focused on corporate governance, strategic planning, risk management, and operations. Our examination was carried out from September 2008 to October 2008.

# Why it's important

CDIC, through its subsidiary CHHC, manages an investment that generates significant cash flow in dividends to the federal government. At 31 December 2007, CHHC's net book value was recorded at \$208 million.

CDIC, through its subsidiary, CEI, is responsible for reimbursing costs related to the cleanup of historic contaminated waste sites, a matter of concern to Canadians because of the potential health implications.

### What we found

We found no significant deficiencies in the systems and practices of CDIC and its subsidiaries. We found a number of sound practices and also some areas for improvement:

- The Corporation is governed by a Board of experienced professionals who are actively involved in their oversight responsibilities. The Board identifies what it needs to provide stewardship and oversee the Corporation's accountability.
   The Board has the appropriate independence and access to the resources needed to discharge its responsibilities effectively. It has enough information and knowledge to interpret the Corporation's mandate, provide management with strategic direction, and exercise its oversight responsibilities. It also participates appropriately in the strategic planning of the Corporation, including discussion and challenge with management.
- While the Board understands the key risks it faces and has strategies in place to mitigate them, the Corporation lacks a formal risk management approach that would provide for the systematic identification, monitoring, and reporting of risks to the Board. We also note that while CDIC's corporate plan summary and annual report are tabled in Parliament, they are made available to the public only upon request. Given its status as a Crown corporation, CDIC should ensure that information on the Corporation is easily accessible to the public.
- Management of CHHC actively participates in the oversight of
  the Hibernia Platform operator's committees. There are systems
  and practices in place to address both joint-venture operations
  and the sale and transportation of oil. CHHC has decided as a risk
  mitigation strategy to contract out the shipping and storage of oil.
  It sells direct to market to increase revenue and reduce risks
  related to the transportation of oil, since the transfer of ownership
  takes place when the oil is loaded into the tanker at the platform.

• CEI has systems and practices in place to ensure the proper management of its financial obligations related to contaminated waste disposal, site restoration, and retiree benefits. It has processes in place to oversee Cameco's related operations and claims, drawing on such experts as lawyers, actuaries, and auditors to ensure that Cameco complies with the conditions of its agreement with CEI.

CDIC has responded. CDIC agrees with all the recommendations.

# Canada Mortgage and Housing Corporation—Main Points

[This examination was jointly completed with Ernst & Young LLP. We issued the full report to the Board of Directors on 21 January 2009. The examination work covered the period from October 2007 to June 2008. As the report contained information classified as "confidential" due to its commercial nature, such information has been redacted from the public report. For the redacted report, please go to www.cmhc.ca or contact the Corporation.]

### What we examined

Canada Mortgage and Housing Corporation (CMHC or the Corporation) is "Canada's national housing agency." Its objectives, as stated in its Corporate Plan, are to help Canadians in need, facilitate access to more affordable better-quality housing for all Canadians, and ensure that the Canadian housing system remains one of the best in the world. CMHC provides mortgage loan insurance, mortgage-backed securities guarantees, and housing research. In addition, it develops housing policy proposals for consideration by the Minister and delivers federal housing programs and services. The Corporation reports to Parliament through the Minister of Human Resources and Skills Development.

In addition to its national office in Ottawa, the Corporation has five business centres located in the Atlantic, Quebec, Ontario, Prairie and Territories, and British Columbia regions to provide Canadians with access to CMHC programs, products, and services. In 2007, its workforce was equivalent to 1,888 staff years. Its total revenues in 2007 were \$7.7 billion and its net income was \$1.1 billion; total assets amounted to \$148.2 billion.

We examined whether CMHC's key systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period October 2007 to June 2008.

# Why it's important

As Canada's national housing agency, CMHC works to enhance Canada's housing finance options, assist Canadians who cannot afford housing in the private market, and provide policymakers with the information and analysis they need to sustain a housing market in Canada. It must ensure that it meets the federal objectives for the housing programs it delivers, as well as its commercial objectives, and that it does so with due regard to economy and efficiency.

#### What we found

We found no significant deficiencies in the Corporation's systems and practices. They were maintained, during the period covered by our examination, in a way that provided the Corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. Some examples include the following:

- CMHC has sound planning practices in place to provide clear direction for its activities. Its corporate plan is linked to its mandate and takes into account identified risks, the human and financial resources required to achieve the Corporation's goals, and the need to control and protect its assets.
- CMHC has a good corporate-wide approach to enterprise risk management (ERM) that is documented well, with clearly assigned roles and responsibilities. The ERM function is independent from high-risk functions—including Treasury, Investment, and Finance—to reduce the potential for conflicts of interest. It informs the Board directly of its risks assessments through the Audit Committee.
- The Corporation has good systems and processes for managing its mortgage insurance activities. Appropriate criteria for underwriting decisions are identified for each product and considered against the Corporation's risk tolerance, the expected rate of return, and its corporate objectives. A formal process is in place to ensure that the underwriting criteria are interpreted uniformly throughout the Corporation.
- CMHC manages treasury and investment activities effectively.
   Sound investment and borrowing policies are in place. CMHC manages its securitization activities through the identification, measurement, monitoring, and mitigation of the risks related to the securitization programs. The Corporation's process of performing its stress-testing procedures allows it to evaluate the impact of emerging market events.
- There is a strong system of accountability between the Corporation, the provinces, the territories, and other partners in the delivery of its housing programs. CMHC ensures that specific accountability requirements are included in agreements with those who deliver programs on its behalf, and it adequately monitors those programs to ensure that money is spent for the intended purposes.

We also noted some areas for improvement, including those described below:

- The Corporation needs to periodically provide further information in its Annual Report on the performance of housing programs, on the status of and trends in Canadian housing needs, and on the impact that CMHC activities are having on these needs over time.
- While the Corporation has carried out a vulnerability assessment of the IT system that supports its homeowner insurance activities, it has not done so for the other IT systems it identified as high-risk. Appropriate and periodic vulnerability assessments that consider the people, processes, and technologies involved in all of its high-risk systems would assist the Corporation in developing appropriate risk mitigation strategies.

The Corporation has responded. The Corporation agrees with our recommendations.

# Canada Post Corporation—Main Points

[This examination was jointly completed with KPMG LLP. We issued the full report to the Board of Directors on 26 November 2009. The examination work covered the systems and practices that were in place between February 2008 and May 2009. The examination period was extended to August 2009 with respect to events related to the postal transformation initiative. For the full report, please go to www.canadapost.ca or contact the Corporation.]

#### What we examined

Canada Post Corporation is one of the largest federal Crown corporations and one of the largest employers in Canada, with about 60,000 full- and part-time employees (its subsidiaries employ about another 12,000 people), most of whom are unionized. In 2008, the Corporation earned \$6.1 billion in revenues, which is 79 percent of consolidated revenue from operations; its earnings before taxes were \$66 million. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport, Infrastructure and Communities.

As Canada's national postal service, Canada Post Corporation is expected to provide a standard of service that will meet the needs of Canadians and that is similar with respect to communities of the same size. It is also expected to be financially self-sustaining.

We examined Canada Post Corporation's systems and practices to determine whether, in the period under examination, they provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

We examined, among other things, the postal transformation initiative, corporate governance, strategic planning, performance measurement and reporting, and human resources management. The postal transformation initiative is an estimated \$3.1 billion project to replace outdated postal facilities and transform operational processes that Canada Post developed in response to the critical issue of its aging infrastructure. The project is the centrepiece of the Corporation's strategy to reduce long-term costs, improve workplace safety, increase productivity, provide the base for new products and services, and achieve a sustainable environment. Canada Post has said that the initiative's successful implementation is essential to the Corporation's survival and future financial sustainability.

Our examination covered the systems and practices that were in place between February 2008 and May 2009. We extended our examination period to August 2009 to consider events related to the postal transformation initiative. We did not examine the systems and practices of the Corporation's subsidiaries (such as Purolator Courier Ltd.), which are not wholly owned and therefore are not included in the special examination requirements of the *Financial Administration Act*.

## Why it's important

Canadians rely on the services provided by Canada Post and expect prompt, reliable mail delivery to their door or a conveniently located postal box at fair and reasonable prices. In addition to providing this universal postal service, the federal government requires Canada Post to provide various services aimed at achieving other public policy objectives—for example, maintaining rural mailbox delivery and respecting the moratorium on the closing of rural post offices, providing free mail for material for the blind and for parliamentarians, and discounting postal rates for library books. While the government provides some compensation for added costs or lost revenue as a result of such services, these requirements limit the Corporation's flexibility for cutting costs and meeting its commercial objectives.

Like other large postal services around the world, Canada Post Corporation must respond to the challenges of an aging infrastructure and workforce. In addition, it faces growing competition for its traditional markets from other delivery services and electronic mail. In these circumstances, it is crucial that it have in place well-designed and well-functioning systems and practices to enable it to face these challenges to its survival.

#### What we found

Our examination found a significant deficiency relating to a strategic risk due to lack of funding for the postal transformation initiative.

• The Corporation has not yet secured the funding it needs to complete the crucial planned \$3.1 billion postal transformation initiative. Due to funding pressures increased by the downturn in the Canadian economy, such as those from the decline in postal volumes and the possibility of significant payments to its pension fund, it has been unable to fund the initiative internally to 2010, as originally planned. As a result, the timeline and the period to realize benefits have been extended considerably. The changes in the planned rollout of the transformation impact virtually all aspects of the organization, putting at risk the future sustainability of the Corporation's operations and its ability to fulfill its mandate for universal mail service.

Subsequent to our examination, in June 2009, Canada Post informed us that the government reacted positively to its proposal to increase postal rates and the Corporation's borrowing limit. This may provide the funding that would allow the Corporation to complete its original plan. However, at the time of our examination, it was too early to determine what impact this would have on the Corporation's financial sustainability and its ability to fulfill its mandate in the long term.

## We found several areas with good practices.

- The Corporation has good systems and practices to manage the
  postal transformation initiative. The Board of Directors has been
  involved in oversight and approval of decisions relating to
  planning and implementing this initiative. Management has
  established good project management practices to monitor the
  initiative as it is implemented.
- Generally we found good systems and practices for human resource management, an important function in this large corporation of close to 60,000 employees.
- The Board of Directors has access to the resources it needs to discharge its responsibilities for stewardship and oversight of the Corporation as well as the subsidiaries, and it exercises those responsibilities.

## We also identified some areas requiring improvement.

- The Corporation places more emphasis on financial objectives and targets than on other aspects of performance, and in activities outside the postal transformation initiative, it focuses on annual targets rather than the long-term horizon and alignment with strategic direction. In addition, while Canada Post has established delivery standards for its universal service obligation, it has few performance indicators for its other public policy objectives.
- In planning its future needs, the Corporation does not validate the cost estimates prepared by facilities management contractors for repairs and maintenance of its buildings until it enters into contracts. Nor does it consistently manage its aging capital assets on a life cycle basis. However, changes are planned that will provide for collecting the necessary data to support life cycle management systems, which management needs for the estimated \$2.4 billion in major capital assets the Corporation plans to purchase under the postal transformation initiative.

• The terms and conditions of contracts with its related companies may not protect the interests of Canada Post.

The Corporation has responded. Canada Post Corporation agrees with the recommendations.

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# Canada Science and Technology Museum Corporation—Main Points

[Issued to the Board of Directors on 14 April 2009. The examination work covered the period from January 2008 to October 2008. For the full report, please go to www.technomuses.ca or contact the Corporation.]

#### What we examined

The Canada Science and Technology Museum Corporation manages three museums in Ottawa: the Canada Agriculture Museum, the Canada Aviation Museum, and the Canada Science and Technology Museum.

The Corporation is responsible for fostering scientific and technological literacy throughout Canada by establishing, maintaining, and developing a collection of scientific and technological objects, with special but not exclusive reference to Canada. The Corporation reports to Parliament through the Minister of Canadian Heritage and Official Languages.

The Corporation funds its activities primarily through parliamentary appropriations. It has about 250 employees. The three museums' collection ranges from World War I aircraft to telescopes and other scientific instruments and, in the case of the Canada Agriculture Museum, live animals.

We examined whether the Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination covered the period from 1 January to 1 October 2008.

## Why it's important

Museums such as the Canada Agriculture Museum, the Canada Aviation Museum, and the Canada Science and Technology Museum provide a unique experience. Through their collection, their knowledgeable staff, and their activities, exhibitions, public programs, and websites, these museums provide visitors with opportunities to explore. They can open minds to new interests and contribute to an understanding of Canada's heritage and contribution to the world in science and technology.

#### What we found

We found a significant deficiency in the Corporation's human resources management systems and practices that puts the Corporation at risk of not having the competencies it needs to carry out its mandate.

 There is no human resources strategic plan in place to support the Corporation's strategic objectives. We saw no evidence of planning

- activities or operational plans that support the Corporation's strategic objectives. Neither the Board nor its committees have human resources defined as part of their responsibilities.
- While 60 percent of management was eligible to retire in 2008, there is still no succession plan in place, despite a recommendation we first made in 1999 and the Corporation's own identification of this issue as a priority.
- Performance management practices are weak—we found no performance evaluation for a third of employee files reviewed, no competency models to determine what skill sets are required, no training plans for individual employees, and no performance ratings to support bonuses paid to senior management.

We found no significant deficiencies in other systems and practices. As noted below, we identified adequate practices as well as some that should be improved.

- The Corporation develops, manages, and controls its collection adequately. In the area of strategic planning, the Corporation has updated its strategic framework every year since 2005, which demonstrates the use of performance information. However, the annual changes have altered which performance information is tracked and retained, making it difficult to track performance over time.
- The Board of Trustees has not defined the information it requires to carry out effective oversight of the Corporation. For example, it has not requested information on the renewal of a lease agreement between the Corporation and the operator of an airport owned by the Corporation, an agreement that expired in March 2003. Furthermore, the Audit and Finance Committee of the Board was told that a succession plan for senior management had been developed. In fact, no such plan existed. Although the lack of a succession plan was identified as a key risk to the Corporation, the Board has not requested the succession plan for approval. Without requesting that it receive complete and up-to-date information, it is difficult for the Board to ensure that risks are properly mitigated. In addition, although it has long been aware of the storage problems that put the Museum's collection at risk, the Board has not asked management to develop alternative options for resolving the problems.

The Corporation has responded. The Canada Science and Technology Museum Corporation agrees with the recommendations.

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# Canadian Commercial Corporation—Main Points

[Issued to the Board of Directors on 23 June 2009. The examination work covered the period from October 2008 to February 2009. For the full report, please go to www.ccc.ca or contact the Corporation.]

#### What we examined

The Canadian Commercial Corporation is a Crown corporation that reports to Parliament through the Minister of International Trade. The Corporation is Canada's international contracting and procurement agency. It is headquartered in Ottawa and employs approximately 120 people. These professionals largely belong to various disciplines such as engineering, finance, procurement, project management, and international trade.

The Corporation helps Canadian exporters by connecting foreign government buyers to Canadian businesses that can provide goods and services as required in defence markets and emerging and developing markets. As the government's international procurement agent, it helps other federal organizations who deliver programs in other countries by procuring goods and services for international use.

We examined whether, in the period under examination (October 2008 to February 2009), the Canadian Commercial Corporation's systems and practices provided it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

## Why it's important

The Corporation's public policy mandate is to support the development of international trade between Canada and other nations, and to operate in markets—particularly government markets—where the private sector may meet obstacles operating on its own.

While defence markets account for 70 percent to 80 percent of its business, the Corporation has established a corporate priority of expanding into emerging and developing markets that are increasingly attractive to Canadian exporters. As a federal Crown corporation, it is in a position to mitigate some of the risks involved in doing business in these markets—risks that may include poor financial protection, the political environment, and complex regulations.

### What we found

We found no significant deficiencies in the Corporation's systems and practices. We noted good practices, including some that have improved since our 2004 special examination. We also noted some opportunities for further improvement.

 The Corporation's risk management framework and its contracting practices have improved since our 2004 special examination, when we reported a significant deficiency in both areas. For example, the Corporation has developed and implemented its risk management framework. The Board and management have improved the monitoring of risks and are working together to develop consistent reporting on the status of identified risks and on new risks that need mitigation. We note, however, that the Corporation's risk management philosophy—seek to eliminate all known risks—needs to be more balanced with its broader public policy mandate and more aligned with its current risk management practices. Improved contracting practices include a new contracting policy suite with guidance on identifying early signs of problem contracts and the required corrective action. We found little progress on our 2004 recommendation to establish a quality assurance process for contract management.

- The Corporation needs to improve its documentation in specific areas. In the contracting process, it needs to aggregate, clearly link, and present all significant risks to support decision making; it needs to better document decisions related to the identification and pursuit of contracting opportunities; and it needs to ensure that consideration of strategic and operational risks is included and documented in the contract management process along with currently documented project-specific risks.
- Corporate governance reflects good practices of Board stewardship, shareholder relations, and communication with the public. The Board is closely involved with management in the strategic planning process, and the Corporation consults with government throughout the process to ensure that government priorities are taken into account. The Corporation is currently developing a comprehensive performance measurement framework to improve the monitoring of performance; it has made this a corporate priority.
- The Corporation's marketing practices support its objectives and goals and respond to market needs. The Corporation has used its past experience to develop successful business models for new markets. We note that each business line has its own business development activities and system for compiling information on future projects. In our view, the Corporation would benefit from a comprehensive corporate marketing strategy as well as corporate-wide marketing information covering all business lines.

The Corporation has responded. The Canadian Commercial Corporation agrees with all the recommendations and is committed to addressing them in a timely manner.

# Enterprise Cape Breton Corporation—Main Points

[Issued to the Board of Directors on 14 September 2009. The examination work covered the period from December 2008 to March 2009. For the full report, please go to www.ecbc-secb.gc.ca or contact the Corporation.]

#### What we examined

Enterprise Cape Breton Corporation (ECBC) is a Crown corporation that promotes and coordinates economic development throughout Cape Breton Island and a portion of mainland Nova Scotia in and around the Town of Mulgrave. The Corporation has broad powers to make loans, provide grants and contributions, and make investments. It has a growing portfolio of properties and buildings that are a means to support economic development—for example, through transfers to others as an incentive for investment or through sale for income to reinvest in programs. In addition to its own programs, Enterprise Cape Breton Corporation delivers programs on behalf of the Atlantic Canada Opportunities Agency (ACOA). The Corporation has working relationships and partnerships with governments at all levels as well as with community, business, and other organizations to support and implement various economic development initiatives.

We examined whether Enterprise Cape Breton Corporation's systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. We focused on the areas of governance, strategic and operational planning, performance measurement and reporting, project management, and property management and development. Our examination covered the period from December 2008 to March 2009.

## Why it's important

The area served by the Corporation is economically depressed, with an unemployment rate higher than the provincial and national averages and significant out-migration in recent years. The role of the Corporation is to respond to these economic conditions by promoting and assisting the financing and development of industry in order to provide employment outside the coal-producing industry and broaden the economic base of Cape Breton Island.

## What we found

We found no significant deficiencies in the Corporation's systems and practices. We noted some good practices as well as opportunities for improvement.

 The Board of Directors has active committees with clear mandates; it added a Human Resources Committee in 2008.
 The Board regularly receives and reviews information from management that it uses for oversight. The Corporation has not yet finalized the Board charter or considered whether Board committee responsibilities need to be updated to reflect the charter. It also has yet to complete the updating of the Board competency profile. The Board of Directors is examining further options to assess its performance on a regular basis.

- Senior management and the Board of Directors are engaged throughout the strategic planning process. The resulting corporate plan sets out targets and expectations that are consistent with the Corporation's mandate, mission, and objectives. The Corporation has established a risk management framework that identifies potential risks and the Corporation's response to those risks. However, it could improve its approach to risk management by assigning to specific managers the responsibility for implementing measures designed to mitigate risk and by reporting regularly to senior management and the Board on how well those measures are working.
- The Corporation has a performance management framework that indicates how program activities are intended to contribute to the Corporation's strategic outcome ("a competitive and sustainable Cape Breton economy") and its mandate and mission. The framework was recently revised to strengthen certain areas. However, performance measurement could be improved by ensuring that expected outcomes are clear and that performance indicators and targets demonstrate the results to be achieved. Reporting on performance could be improved by providing additional information in certain areas—for example, by explaining what it means by key terms such as "long-term" and "sustainable" results.
- The Corporation has systems and practices that ensure due diligence in approving and monitoring economic development projects for which it provides funding.
- Enterprise Cape Breton Corporation has systems and practices in place to manage its real property holdings. However, it needs to renew the expired memorandum of understanding with Cape Breton Development Corporation governing property transfers. It also needs to strengthen its property management framework by incorporating criteria to identify properties that could support its economic development mandate and to assess whether its properties continue to be useful for delivering its programs.

The Corporation has responded. Enterprise Cape Breton Corporation agrees with our recommendations.

# Export Development Canada—Main Points

[Issued to the Board of Directors on 17 June 2009. The examination work covered the period from March 2008 to November 2008. For the full report, please go to www.edc.ca or contact the Corporation.]

#### What we examined

Export Development Canada (the Corporation) is Canada's export credit agency, supporting a broad range of exporters across Canada. It operates on a self-sustaining basis, generating enough income to protect its assets, manage its exposure to credit and market risk, and maintain enough capital to meet future demand. According to its annual report, in 2008, the Corporation served 8,312 customers; it also facilitated exports totalling \$85.8 billion and investments in 184 markets.

Export Development Canada reports to Parliament through the Minister for International Trade. In 2008, it had assets of about \$35.2 billion and the equivalent of about 1,063 full-time employees.

We examined whether the Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

## Why it's important

Export Development Canada has a mandate to support and develop Canada's export trade and Canadian capacity to engage in that trade as well as to respond to international business opportunities. A key goal is to ensure that Canadian companies of all sizes have access to the financing and risk management services they need to compete in the international marketplace.

#### What we found

We found no significant deficiencies in the Corporation's systems and practices. They were maintained, during the period covered by our examination, in a way that provided the Corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. Below, we note some good practices as well as some opportunities for improvement.

- The Corporation has in place the key elements of a good governance framework. It has a sound corporate planning process that provides clear direction for its activities and considers relevant information from a number of sources, including its Board of Directors.
- Export Development Canada has a financial risk and capital management framework that addresses credit and market risk and

capital sufficiency. It has also developed an Enterprise Risk Management (ERM) framework that identifies underlying principles, roles and responsibilities, and a methodology for managing risk. The Corporation needs to assign responsibility for monitoring and managing its key risks and to monitor and report on the top risks more formally and systematically.

• In its management of information technology (IT), EDC has no formally approved IT project management framework in place. Additionally, the IT Security governance framework is currently incomplete. We encourage management to implement their plans to address these areas.

The Corporation has responded. The Corporation agrees with all the recommendations.

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## Marine Atlantic Inc.—Main Points

[Issued to the Board of Directors on 14 September 2009. The examination work covered the period from October 2008 to March 2009. For the full report, please go to www.marine-atlantic.ca or contact the Corporation.]

#### What we examined

Marine Atlantic Inc. is a Crown corporation responsible for providing ferry services between Nova Scotia and the Island of Newfoundland. The Corporation operates two routes—a year-round service between Port aux Basques and North Sydney and a seasonal service between Argentia and North Sydney. To provide this service, Marine Atlantic operates four large passenger/vehicle ferries. In 2007–08, the Corporation's operating expenses were about \$160 million, of which \$73 million was funded by revenue from customers and \$77 million was federal government funding. The Corporation has the equivalent of about 950 full-time equivalents but the actual number of employees increases to about 1,250 during the summer season.

We examined whether Marine Atlantic Inc.'s systems and practices provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. We focused on the areas of corporate governance, strategic and operational planning, safety and security, human resource management, operations, and capital asset management. Our examination covered the period from October 2008 to March 2009.

## Why it's important

Marine Atlantic is a vital transportation link to Newfoundland and Labrador. The only other practical option for passenger travel to the Island of Newfoundland is by air. The Corporation's commercial customers transport about 50 percent of the goods entering Newfoundland and Labrador, including about 90 percent of the perishable goods. The Government of Canada is obligated to provide year-round ferry service between North Sydney and Port aux Basques under the Terms of Union governing Newfoundland's confederation with Canada.

#### What we found

Our examination found two significant deficiencies in Marine Atlantic's systems and practices: one relating to unresolved strategic challenges and the other relating to operational systems and practices in operational planning and capital asset management:

• Strategic challenges. Marine Atlantic is at risk of being unable to deliver the services it is responsible for providing, due to unresolved strategic challenges that will require support from the

government to overcome. These challenges are the aging of its ferries and shore-based assets, difficulties ensuring that capacity is sufficient to meet the traffic demand, failure to meet the cost recovery target set by the government, and the need to increase its management capacity. Marine Atlantic needs to agree with the government on a plan of action, including long-term funding, to overcome these challenges.

• Operational planning and capital asset management. Marine Atlantic does not have an operational planning framework and performance measures in place to ensure that strategic direction and corporate plans are implemented. The Corporation exceeded approved operating budgets in 2006 and fiscal years 2007–08 and 2008–09, and commitments in its corporate plans have not been met. In addition, many observations raised in our 2004 special examination have not been addressed. Marine Atlantic's capital asset management practices do not ensure that its operations are reliable and that assets are managed at the lowest cost over their useful lives. As a result, ferries have suffered mechanical breakdowns that have affected the reliability of service, and the physical condition of shore-based assets is poor.

In our opinion, given the significance of these deficiencies, and based on the criteria established for the examination, Marine Atlantic does not have the reasonable assurance required by section 131 of the *Financial Administration Act* that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

In other areas, we noted that while no significant deficiency existed, Marine Atlantic would benefit from improving its practices.

- Corporate governance. The Board of Directors has many strong governance practices including an appropriate committee structure, and is an active, independent Board with qualified members. However, the Board has recognized the need to improve its governance practices, including clarifying the roles of Board committees and ensuring that its members obtain the information they need. A review of Board governance was started in 2007 but was put on hold for most of 2008. We also noted that a review of Marine Atlantic's internal audit function found that it did not meet relevant standards.
- Safety, security, and environmental stewardship. During the period of our examination, the Corporation's ferries had up-to-date safety certifications. However, the Corporation is still

implementing measures to comply with relevant international and upcoming Canadian security requirements. In addition, the Corporation has not developed an environmental management system since we raised this issue in our 2004 special examination.

- Human resource management. Since our 2004 special examination, Marine Atlantic has made progress in developing a succession plan and providing leadership and management training. However, the Corporation has not yet developed an overall human resources plan.
- Operations. Marine Atlantic has improved its processes for setting its 2009 sailing schedule and forecasting traffic demands. However, the Corporation has found that the system for scheduling staff is inefficient, the Corporation has not acted upon identified opportunities to improve efficiency, and its internal committee to improve customer satisfaction stopped meeting. The Corporation has experienced poor on-time performance, particularly during the period of peak demand in July and August 2008.

The Corporation has responded. The Corporation agrees with our recommendations.

## National Gallery of Canada—Main Points

[Issued to the Board of Trustees on 1 December 2009. The examination work covered the period from October 2008 to April 2009. For the full report, please go to www.gallery.ca or contact the Corporation.]

#### What we examined

The National Gallery of Canada (the Gallery) was founded in 1880, and became a federal Crown corporation in 1990, under the Museums Act. Its mandate is "to develop, maintain and make known, throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians."

The Gallery reports to Parliament through the Minister of Canadian Heritage and Official Languages. It is governed by a Board of Trustees and, at the time of our examination, employed about 275 people. In the 2008–09 fiscal year, it received \$53.3 million in appropriations from Parliament for capital and operating expenses as well as to purchase works for the collection. It also generated \$8.2 million in operating revenue and received \$1.7 million from the National Gallery of Canada Foundation, a registered not-for-profit charity.

We examined whether the National Gallery of Canada's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. Our examination work covered the systems and practices that were in place between October 2008 to April 2009.

## Why it's important

Museums such as the Gallery provide an opportunity to further knowledge of the visual arts. Through its collection, exhibitions, activities, public programs, and web sites, the Gallery makes its collection, its knowledge, and its scholarship available to audiences in Canada and abroad. It provides opportunities to expose audiences to well-known artists and those less established, to educate and inform, and to provide a venue to showcase Canadian achievements in visual arts.

#### What we found

We found no significant deficiencies in the systems and practices of the National Gallery of Canada. We found sound systems and practices in a number of areas, particularly in activities that are core to the Gallery's business. Some examples include the following:

• The Gallery has put in place the systems and practices it needs to effectively develop, manage, conserve, and protect its collection. Its comprehensive Acquisitions Policy guides the acquisition and

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disposition of works of art. Its electronic collections management system captures the required information on each work and tracks all their movements, both inside and outside the Gallery. It also has effective controls in place over the environmental conditions of its exhibition areas and storage facilities; various techniques are employed to reduce the risk of theft and vandalism of works of arts.

 The Gallery has systems and practices in place to effectively manage its outreach activities, including an Exhibition Policy that provides clear criteria to guide exhibition selection, the Director's Program Committee to select and approve exhibitions, and an exhibition schedule for temporary exhibitions.

We also noted that the Gallery needs to strengthen certain corporate management systems and practices that support its core business activities. The following areas deserve particular attention:

- The Gallery needs to put in place an accountability framework that will clearly define the responsibilities and authorities of its management and staff. It also needs to develop and implement a comprehensive succession plan for key positions.
- The long-term capital plan for the maintenance of the Gallery's facilities includes cost estimates dating back to 2004. Given cost overruns in projects completed to date, its funding strategy needs to be reassessed.
- The Gallery's information management system lacks rigour. A
  well-structured corporate approach to information management
  would foster efficiency and support the achievement of its
  strategic and operational objectives.
- The Gallery lacks a number of practices for managing risks to the security of information technology. Its security policy is outdated and controls to ensure business continuity need to be strengthened.

The Corporation has responded. The National Gallery of Canada agrees with the recommendations.

## Standards Council of Canada—Main Points

[Issued to the Governing Council on 3 June 2009. The examination work covered the period from July 2008 to December 2008. For the full report, please go to www.scc.ca or contact the Corporation.]

#### What we examined

The Standards Council of Canada (SCC) is a Crown corporation with a mandate to promote efficient and effective voluntary standardization in order to, among other aims, advance Canada's economy, facilitate trade, assist and protect consumers, and benefit the health and safety of workers and the public. The Corporation reports to Parliament through the Minister of Industry.

Based on internationally recognized guides and standards, SCC accredits organizations that develop standards in Canada and also approves National Standards of Canada. It accredits bodies that assess whether a product, service or system conforms to a particular standard. In addition, it represents Canadian interests in regional and international standardization bodies. It also provides a range of information and research on standards and technical regulations.

The SCC has a staff of about 90, along with more than 4,000 volunteer members, and is governed by a Council of 15 members. Its operating budget for 2007–08 was about \$14.5 million, close to half of which is financed through its annual appropriation from Parliament.

We examined whether the Standards Council of Canada's key systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The period under examination was July 2008 to December 2008.

## Why it's important

Having standards in place helps to protect health, safety, and the environment; facilitates innovation; and supports efficiency and order in the marketplace. The use of common standards promotes the competitiveness of Canadian businesses at home and abroad by ensuring that Canada's products and services are internationally compatible. In addition, information on standards can help consumers and businesses to make informed choices.

#### What we found

We found no significant deficiencies in the systems and practices of the Standards Council of Canada during the period under examination. We noted some good systems and practices, as well as areas where the Corporation could improve.

- Overall, the Corporation has good governance practices. The governing Council has developed a profile of the skills needed on the Council, and members receive the information they need to carry out their role. However, the Council would benefit from more regular assessment of its own performance. In addition, the Chair has been acting as the Corporation's Executive Director, as this position has been vacant since April 2008. With the end of the Chair's term approaching later in 2009, the lack of a full-time Executive Director increases the risks not only to continuity of expertise and corporate memory but to clear accountability and leadership.
- The Corporation has improved its strategic planning since our 2004 special examination and has also integrated enterprise risk management into the strategic planning process.
- The process for accrediting standards development organizations has improved since our 2004 special examination. However, the Corporation needs to improve its process for accrediting conformity assessment organizations. While the results of assessments were generally satisfactory, the Corporation's accreditation program documents refer in some cases to international standards that have been withdrawn, and its agreements with partner organizations are outdated. In addition, the Corporation needs to improve the timeliness of the reassessments carried out by its partner organizations. It also needs to ensure that each accreditation program undergoes an internal audit, as required by international standards, and that timely action is taken to correct any problems found by internal audits.
- While its national and international activities are well-managed overall, the Corporation could do better at monitoring the performance of Canadian participants on international technical committees.
- The Corporation manages its human resources and information technology well overall, although it should complete and implement its succession plan.

The Corporation has responded. The Corporation agrees with all the recommendations.

# **About the Chapter**

#### **Objective**

The objective of this chapter was to bring to the attention of Parliament results of the special examination reports that were transmitted to the boards of directors of Crown corporations between 1 January 2009 and 31 December 2009 and that have subsequently been made public by the Crown corporations.

### Scope and approach

The chapter includes the main points of seven special examinations where the Auditor General was the examiner and four special examinations where the Auditor General was the joint examiner.

The approach to this chapter consisted of presenting information that was already public. The approach was to provide information about what a special examination is and to present the main points of the 11 special examinations.

#### Team

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# Report of the Auditor General of Canada to the House of Commons—Spring 2010

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